

## MEMO

**To:** Mary Jane Michael, Chair, Planning Committee  
**Date:** May 3, 2017  
**Fiscal Year:** 2017  
**Project Title:** Facility acquisition for CHOICES and The Alaska Mental Health Consumer Web

**Assigned Staff:** Katie Baldwin, AMHTA and Aaron O'Quin, TLO

### INTRODUCTION

Attached is a joint presentation prepared by staff from both the Trust Authority and Trust Land Office to provide programmatic and TLO support for pursuing facility acquisition to house the Alaska Mental Health Consumer Web and CHOICES, Inc., in a facility recently identified by program staff, TLO staff and agency staff. This facility appears to meet the programmatic and facility needs of both organizations.

Attachment A outlines the programmatic argument in support of moving forward with facility acquisition and offers a motion to approve the Trust Authority staff and TLO staff to move forward.

Attachment B provides the necessary motions and background information to support approval for the Trust Land Office to proceed with property acquisition including due diligence on the proposed property.

Over the last several years the Trust Authority and Trust Land Office have been working diligently to identify a facility that could provide a new program home to the Alaska Mental Health Consumer Web, which is a Trust and DHSS funded program serving Trust beneficiaries for many years. This effort has been motivated by staff to resolve the current substandard facility circumstance as well as health and safety issues related to facility disrepair.

What started as a search to assist the Web in finding a new home evolved into an opportunity to also consider collocation of the Web with CHOICES, Inc., a separate organization providing peer support and comprehensive wrap around community based services to Trust beneficiaries with serious mental illness.

## **ATTACHMENT A: Trust Authority support for facility acquisition**

*SUGGESTED MOTION: The full board recommends approval for the Trust Land Office and Trust Authority staff to move forward with securing an identified facility to house and collocate the Alaska Mental Health Consumer Web and CHOICES, Inc., in a quality facility that provides stability to both organizations to best serve Trust beneficiaries into the future.*

### **BACKGROUND:**

Trust staff recommend moving forward with securing the facility located between Juneau and Karluk Street on 6<sup>th</sup> Avenue for the purpose of relocating and collocating two programs partially funded by the Trust, The Alaska Mental Health Consumer Web (The Web) and CHOICES, Inc.

The argument in favor of this recommendation is based on the premise that these organizations are providing direct, mission-critical services and supports to Trust beneficiaries. The individuals served through these organizations are extremely challenging to engage and serve effectively in traditional mental health or social service agencies. Trust beneficiaries served by these programs will benefit substantially by improving the quality of environment in which services are offered.

**The Alaska Consumer Mental Health Web** has been in operation for 25 years and is the only peer-run recovery-oriented drop-in and engagement center in Anchorage. The Web serves individuals who experience life challenges including mental illness, traumatic brain injury, developmental disabilities, substance addiction and homelessness. These issues are compounded by poverty, isolation and trauma. Because of difficulty integrating, the Web is often the last service option for many of these individuals as they have burned bridges within the traditional social service system. Similarly, they are often the first step for re-engagement of beneficiaries into services. The Web utilizes the relationships established through the peer-to-peer connections to meet the individual needs of each person and to coordinate with available resources in the community to help participants succeed.

**CHOICES, Inc.** is a mental health service provider that offers beneficiaries strategies, opportunities, resources and supports for personal growth, recovery, peer support and successful community integration. CHOICES is the service agency that facilitates the Assertive Community Treatment Program for beneficiaries with severe mental illness, supported jointly by the Trust and DHSS. They offer an array of additional services and supports that are provided primarily by people who have experienced recovery from mental health challenges. Recipients of services gain employment, obtain stable housing and have decreased episodes of incarceration or hospitalization.

There is natural synergy between the two programs and the people served, with the Web providing the engagement entry and a longer term support “home,” and with Choices being able to provide some of the more complex mental health treatment and recovery support through their programs. This builds a logical and natural continuum of care that is based on the foundational philosophy of peer and consumer choice.

The Web and CHOICES are two of five remaining beneficiary run organizations receiving Beneficiary Project Initiatives grant funding through the Beneficiary Employment and Engagement Focus Area. Over the years, Trust staff have pared down programs receiving Trust funding by half (from 12 programs in the cohort down to six). The remaining organizations currently supported by the Trust are deemed the most mission critical to serving Trust beneficiaries.

The Web has been in their current facility located on the corner of Gambell and 12<sup>th</sup> for the past 25 years. For years, the program along with Trust assistance have been trying to find a facility that is better suited for them and provides a positive and safe environment for their participants. Many properties have been viewed over the years with guidance from both the land office staff, Trust staff and Foraker Pre Development program. There are very limited options given zoning restrictions, the need to be located in a similar part of town, space needs including outdoor space as well as walking distance to the bus system and other hub resources (e.g., Beans Café, the Soup Kitchen and CHOICES etc.).

The current facility is in substandard condition and limited space does not afford adequate room for participants to move comfortably, work on computers or engage easily in the daily activities offered at the Web. Relocating the programs will resolve a number of issues inherently problematic with their current location including proximity to a liquor store across the street and Gambell Road. Finding a new location for the Web may also be positively received by the community council, which has expressed concerns over the years about the program location compounded with the location being an existing problematic corner of activity.

Co-location provides opportunities to find efficiencies and to build out a stronger, smoother connection for a more effective continuum of care. Beneficiaries will benefit by being able to come to one location which enables them to engage and link into more intensive services provided by the CHOICES program. The participants of both organizations will benefit from the more welcoming, positive environment and the stability of a permanent home that enables supportive relationships as well as support systems and routines that reduce isolation and barriers.

Co-location of the programs creates opportunities for enhanced revenue generation that has not existed previously to both programs by linking the Web's peer-based recovery services with CHOICES, an approved Medicaid provider. CHOICES is making good progress with increasing revenue for services provided. This additional income through expanded peer support services has the potential to increase sustainability and reduce dependence upon grant funding over time.

Additionally, the programs are working closely to coordinate delivery and operation of services, which is something the Trust has advocated for over the years. They currently host joint staff training, monthly joint program staff meetings as well as provide reciprocal support to participants of both programs. Collocation of programs operationally makes sense to further programmatic coordination on many levels.

Based on current lease and utility cost expenditures, it is very likely both programs will spend less for lease/utility expenses in the proposed collocated facility. The programs are currently spending approximately \$240k in combined annual lease costs. Savings in this cost area could enable each program to refocus realized savings toward direct services or possibly provide savings in Trust grant expenditures. This analysis will be part of the due diligence process and will be carefully considered.

The following table illustrates the current Trust annual funding level for each program, additional grant funding from DHSS as well as a breakdown of lease/utility costs within the Trust grants, cost covered by other grant sources and total lease/utility costs.

	<b>Trust Funding</b>	<b>Other Grant Funding</b>	<b>Total</b>
<b>CHOICES</b>	\$347,670	\$1,734,677	\$2,082,347
Lease/utilities	\$55,000	\$120,000	\$175,000
<b>WEB</b>	\$304,000	\$244,207	\$548,207
lease/utilities	\$32,248	\$32,248	\$64,496
<b>Total Combined Lease Cost</b>	\$87,248	\$152,248	\$239,496

Once we get further along with due diligence on the facility, the Trust will work with the programs to connect with other potential funding partners to help with future expenses related to a facility move.

## **ATTACHMENT B: Trust Land Office Discussion and Proposal for Due Diligence and Acquisition**

### **Proposed Board of Trustees Motion:**

**Proposed Motion One:** *“The Alaska Mental Health Trust board of trustees approve the action as described herein wherein the Trust Land Office (TLO) forms and manages a Single Purpose Entity (SPE) Limited Liability Corporation (LLC) owned in full by the Trust for the purpose of acquiring, owning, and operating the proposed property.”*

**Proposed Motion Two:** *“The Alaska Mental Health Trust board of trustees approve the proposed action to fund the newly formed LLC with principal from the Trust Authority Development Account (TADA) fund code 3320, to acquire the property, up to \$2,500,000. This funding will include purchase price, entity formation expenses, legal review, closing, renovation costs, and due diligence costs as necessary to complete the transaction, as presented.”*

**Proposed Motion Three:** *“The Alaska Mental Health Trust board of trustees approves an increase to the property budget appropriation in the amount of \$80,000.”*

**Proposed Motion Four:** *“The Alaska Mental Health Trust board of trustees delegate to the Executive Director of the TLO the authority to determine if it is necessary to modify or cancel this transaction.”*

### **Background:**

**Transaction/Resource:** Form and fund a special-purpose entity limited liability company ("SPE LLC"), operated and managed by the TLO, to purchase land and improvements (the "Property") for occupancy and lease, consistent with relevant laws and regulations, by Choices, Inc., an Alaska nonprofit corporation, and the Alaska Mental Health Consumer Web, an Alaska nonprofit corporation, including evaluation of the properties by design and space-planning professionals for further suitability review.

**Property Description/Acreage/MH Parcel(s):** The parcel of land located in Anchorage, Alaska, consisting of 14,000 square feet +/- (the "Land"), together with the building erected thereon containing an approximate total of 8,736 square feet (the "Building") (the Land and Building collectively referred to as the "Real Property"). The Land consists of two 7,000 square foot lots (east-to-west, MOA Tax Parcels: 003-071-78-000 & 003-071-77-000, respectively) with the western parcel containing the majority of the Real Property's parking and the eastern parcel containing the Building.

Legal Description: Lot 9 & 10, Block Fourteen "B" (14B), a Subdivision of Block 14, EAST ADDITION TO THE TOWNSITE OF ANCHORAGE, according to the official plat thereof, filed under Plat Number C-24, in the Anchorage Recording District, Third Judicial District, State of Alaska.

**Proposed Actions:**

1. Formation of a SPE LLC to acquire the proposed property.
2. Approve funding the SPE LLC for:
  - a. Entity organizational costs;
  - b. Due Diligence period costs, including space-planning and design for proposed tenants;
  - c. Acquisition and renovation of the property under consideration.

Approve an incremental increase of \$2,580,000.00 to the property. The incremental costs are attributable to the purchase and operation of this property. This property will be among those managed by a third-party property manager. Any revenue from this property will be collected and then used to pay expenses for the property, by the property manager. The net funds, which are Trust funds, would then be distributed/appropriated to/by the Trust as Income Revenue/Program Expenses. Finally, a journal entry would be made to capture all activity on the state accounting system. This new budget appropriation is necessary because it was not previously known the TLO would acquire this facility.

**General Background:** Through approval of the TLO's Program Related Real Estate Resource Management Strategy (2016 Resource Management Strategy), the AMHTA's Program Related Investment Plan (August 2014), and the AMHTA Asset Management Policy Statement, the Trustees have indicated a willingness for the TLO to invest in properties that produce recognizable benefits to beneficiaries and beneficiary-serving organizations, so long as their programmatic merits, as measured and evaluated by Trust program officers, and their risks to the Trust are deemed prudent and consistent with trust management principles. The policies employed by the TLO and memorialized in the 2016 Resource Management Strategy and other policy documents are summarized as follows:

1. Proposed use of Trust land should be initiated by Trust programmatic staff;
2. Use of Trust land to support the Trust's goal of creating an integrated comprehensive mental health plan must be approved by Trustees and sent to the Executive Director of the TLO for consideration.

Moreover, the relevant goals of the 2016 Resource Management Strategy are as follows:

1. Assure the real estate needs of the of the mental health programs sponsored by the AMHTA are met, as appropriate;
2. Manage Trust land for the long-term benefit of Trust's land base while supporting an enhancing the Trust's mission to promote a comprehensive integrated mental health program;

3. Develop Trust land inventory and long-term management plans related to beneficiary programs.

The Resource Management Strategy directs the trustees to consider the following when determining whether to support a proposed program-related project on a case-by-case basis:

1. **Maximizing Trust resources**, including whether the investment represents the highest and best use, the size and duration of the investment, and any expected return;
2. **Risk tolerance and mitigation**, including liability shielding through corporate structuring, competitive procurement, and the overall holding cost of the investment to the Trust;
3. **Financial strategy** employed in acquiring and executing the investment, including the use of principal over income, distribution mechanism (grant v. loan, for instance), and how the item is carried on the Trust's books;
4. **Structuring and monitoring** of the programs, including how much staff time will be devoted to managing the financial and practical elements of the investment; and
5. **Time horizon** of the investment, how long will the investment remain on the Trust's books and what is the Trust's exit strategy or timeline for evaluating the holding.

This property is being presented as an outright acquisition by the SPE LLC with a lease back to two Trust-funded and beneficiary-serving organizations, the Alaska Mental Health Consumer Web (the "Web") and Choices, Inc ("Choices"). This proposal meets the policies, goals, and decisional guidance in the 2016 Resource Management Strategy for the following reasons:

First, this asset has been presented to the TLO by AMHTA staff, whose further analysis of this investment in programming is presented separately. A new joint home for these two organizations has been deemed critical infrastructure in accomplishing the goal of an integrated and comprehensive mental health care program.

Second, the benefits to Trust beneficiaries of owning this infrastructure outweighs potential returns that might be realized from deploying the capital elsewhere, such as with the APFC or in the TLO REMF. Though many of these benefits are difficult to quantify, the result of collocating these two critical services is a net reduction in operating costs to the organizations themselves and a consequent freeing up of grant dollars which may be used for enhanced programming. The specifics of these savings are highlighted hypothetically, below, but will be further developed during the due diligence process.

Third, the property will be owned by a SPE, LLC to shield unrelated Trust assets from liability relating to the ownership of the building. All contracts related to tenant improvements or other work will be procured under competitive circumstances, and the overall holding costs of the investment will be evaluated completely before the ED proceeds with the transactions.

Fourth, the long-term strategy of reviewing financial and programmatic performance, including monitoring of sustainability and on-going feasibility and any exit strategy will be dictated by the

lease between the AMHTA (or SPE LLC) and the beneficiary organizations with oversight and approval from the ED, who has a responsibility to manage the Trust's land base consistent with prudent-investor principles. It is anticipated that AMHTA staff will annually evaluate programmatic performance and encourage continued operational efficiencies and programmatic enhancements between the two tenant organizations.

**Purchase Considerations:**

**Anticipated Benefits:**

Tenant and Lease

It is anticipated that following site control, a period for due diligence, including more detailed evaluation of facility suitability, and a short holding period for renovations and permitting, the Property will be 100% occupied by both the Web and Choices. The benefits to the Trust and the beneficiaries served by the proposed tenants can best be characterized in number of ways, which are described in more detail in the accompanying AMHTA memorandum:

1. Stabilization of the programs through certainty about their future;
2. Elimination of the distraction of a substandard facility allowing focus to be on programming;
3. Efficiencies in operating expenses and the continuum of services available to challenging beneficiary groups;
4. Enhanced opportunities for future revenue generation through Medicaid billing;

Operational Savings to the Organizations

Combined, both organizations expend approximately \$240,000 on operating expenses and rent payments yearly.

	<b><u>Annual Lease/Property Operating Expenses</u></b>
Choices, Inc.	\$175,000
Alaska Mental Health Consumer Web	\$64,500
<b>TOTAL</b>	<b>\$239,500</b>

In their new home, first year operating expenses are estimated at approximately \$80,000. Upon further due diligence and review of the property conditions of the Building, a realistic replacement cost and life span will be ascertained and the rent for the building will be set at that annualized amount. This number will also consider mechanical and capital improvements that will be conducted over the lifespan of the asset, likely to include one or two HVAC replacements, roofing replacements, parking lot resurfacing, among other things. The Building recapture payment is expected to be far less than the \$160,000/year different between the \$80,000 new building operating costs and the current combined rent/operating costs (\$239,500) of the Web and Choices individual facilities.



Hypothetically, assuming a replacement cost for the building of \$250/square foot and a life span of 35 years, this amounts to a monthly rental amount of approximately \$0.60 per square foot, or \$62,142 per year. The net result is a savings to the organizations of approximately \$100,000 per year.

Current Lease/Operating Expenses	\$239,500
Expected Operating Expenses	( \$80,000)
Hypothetical Replacement Cost Capture Payment (rent)	( \$62,142)
<b>Operating Savings to Organizations</b>	<b>\$97,358</b>

Additional analysis of the how the building operating expenses and replacement cost capture payment will be funded will take place in concert with the TLO’s acquisition due diligence as well as further exploration of the resulting efficiencies of joint occupation by both organizations of one facility. These efficiencies are expected to include space-sharing of meeting, storage, examination, and staff areas, as well as the added benefit of a single building envelope.

Facility

The property was constructed in 1983 and has served as the Mercedes-Benz dealership, a parts warehouse for the same, a counseling center for the Salvation Army, and was most recently partially renovated to become an adult day care facility. The building consists of two above-ground floors and a basement level, each containing roughly 2800 square feet, for a total of 8,736 square feet. The Property is generally in excellent condition, the result of extensive renovations completed by the previous tenant. The mechanical and HVAC systems have recently been updated and cosmetic finishes are clean and up-to-date.

Choices is anticipated to occupy the top floor of the Property which, aside from entryway reconfiguration, will be turned over largely turn-key. However, the TLO anticipates that extensive renovations will be required to render the Property suitable for the Web. The cost for these renovations are yet to be determined, but will be accounted for by the TLO ED when deciding whether to move forward with the acquisition. The expected renovations are as follows:

- Redesign of entrances, possibly separate for each program;
- Gutting and refinishing of ground floor to allow for day-to-day operation by the Web;
- Installation of elevator or accessibility lift for ADA compliance;
- Installation of kitchen facilities for the Web;
- Installation of fencing for Web outdoor facilities;
- Additional considerations identified by design professionals.

The Property currently contains 22 parking spaces. As part of the due diligence efforts, parking needs and MOA requirements will be evaluated as well as the feasibility of converting some of the parking spaces to outdoor space, as required by the Web's programming. If, during the due

diligence period, the TLO determines that the facility is not appropriate for joint occupation by both tenants, the ED will have the power to terminate the purchase contract.

The Property is currently listed at \$1,050,000.00. The TLO, after thorough market analysis and prior to entering a purchase contract, will negotiate a purchase price that accounts for market trends, expected renovations, and other relevant information. The purchase price will be further adjusted if deficiencies are discovered during due diligence.

**Anticipated Risks/Concerns:** First, there is the risk that one or both programs becomes unable to operate. The building is being acquired for the specific purpose of housing both critically-important Trust-sponsored programs in tandem. The programs represent adjacent intervals on the continuum of care and are poor matches for most other programs or even alternative fair market uses. If one or both program was to lose its ability to function, through management failure, loss of funding, or otherwise, the Trust would be left with vacant office space and a continuing obligation to maintain the same.

Second, the Anchorage commercial real estate market has softened in recent years as capital expenditures by multiple sectors, including oil and gas and government spending have waned. Though there is the possibility of recouping Trust investment by selling or leasing the Property to a non-beneficiary organization in the future, the TLO considers this acquisition as strictly a programmatic acquisition and would anticipate an economic loss should programmatic uses of the facilities fail. Despite this, the TLO anticipates performing a market analysis prior to entering a purchase contract to assess market value and will not proceed unless the acquisition represents a prudent risk.

**Project Costs:** As outlined, above, with additional due diligence to determine renovation costs.

**Due Diligence:** The terms of the purchase contract will include a reasonable due diligence period, beginning the day the contract is executed. During that time the TLO will perform many tasks. In addition, the TLO will direct third party contractors to perform many important functions to study the asset. Some of the due diligence items are as follows:

- Appraisal – is performed by a Certified Real Estate Appraiser.
- ALTA Survey – is a specific kind of survey that goes beyond locating the parcel and any structures. The ALTA Survey also notes any items related to title such as trespass and easements. ALTA surveys are also performed to a more exacting standard.
- Design Feasibility – commercial space planner/architect to be retained to design tenant improvement build out to ensure facility will meet the needs collective needs of the organizations.
- Title Review – is performed early in the due diligence period by an attorney to ensure that the seller has the rights to the property they have presented.

- Phase 1 Environmental – is a review of the structures, grounds, and all the business processes performed therein. It is performed by an environmental engineer and provides information as to the possible presence of contaminants.
- ADA inspection – ensures that the building is up to proper code with regard to the Americans with Disabilities Act.
- Structural Inspection – provides an analysis of the structure as to the suitability of its current use, and an estimate of useful life.
- Geotechnical Inspection – specifically inspects the structure to ensure it meets seismic standards.
- Roof Inspection – provides a report on the condition and useful life of the roof. In addition, it will recommend a maintenance schedule to maximize the useful life.
- HVAC Inspection – provides a report on the condition and useful life of the HVAC system. In addition, it will recommend a maintenance schedule to maximize the useful life.
- Capital Project Review – is an analysis of projects performed over the life of the building so that any of the other inspections may pay close attention to the subject area. It is also used as part of the financial analysis to determine the capital budget.
- Financial Review – is an analysis of the operations of the property for the last several years to determine if they are as presented in the sale.
- Tenant Communications – the TLO will continue communications with the tenants to discuss their use and plans for the facility.
- Vetting of Seller – the overall analysis that the seller has the authority to sell their interest in the property as negotiated.

The TLO will amass and study all the information produced as well as make physical inspections of the property. The information will be taken as a whole to determine if the transaction will be completed. If a concern is uncovered during the due diligence process, there are various ways to negotiate and mitigate the effects. If a concern is found that is unacceptable to the TLO, the transaction may be cancelled at any time before the end of the due diligence period without penalty as a condition of any purchase and sale contract.

**Consistency with the Resource Management Strategy:** The proposal is consistent with the 2016 Resource Management Strategy which was adopted January 2016 in consultation with the Trust and consistent with the goals espoused therein.

**Trust Land Office Recommendation:** Proceed with the formation and funding of the SPE LLC, operated and managed by the TLO, for the acquisition, operation and financing of the Property, as described herein.

**Applicable Authority:** 11 AAC 99.110; 20 AAC 40.710; AS 37.14.007; AS 38.05.801

**Trust Authority Consultation:** The AMHTA has jointly reviewed and presented its findings regarding this project to the board of trustees in concert with this TLO proposal.