

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

October 17, 2018
9:00 a.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
Luke Lind
Michael Baldwin
Carrie Predeger
Katie Baldwin-Johnson
Jimael Johnson
Valette Keller
Eric Boyer
Travis Welch
Autumn Vea

Also participating:

Denise Daniello; Alison Kulas; Kristin Vandergriff.

PROCEEDINGS

CHAIR SELBY calls the Finance Committee to order and states that all the trustees are present. There being no announcements, he asks for a motion to approve the agenda.

TRUSTEE DERR makes a motion to approve the agenda.

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 August 2, 2018.

TRUSTEE DERR makes a motion to approve the minutes of August 2, 2018.

TRUSTEE MICHAEL seconds.

There being no objection, the motion is approved.

STAFF REPORTS

CASH MANAGEMENT REPORT

MR. STEMP states that the cash management status report is for the two months ending in August and is an early look at the results. He goes through the summary of the different TLO activities as well as the totals, adding that all is on target. The investment results continue to be favorable for the Trust, and there is optimism about potential investment returns.

MR. ABBOTT states that this will be the last committee meeting with this report in this format. There will be a different template shown in January, which will include the comments and feedback. He continues that it will still present the total picture of the system and give a bit more insight into ongoing activity, which will make it more useful as an oversight tool for the trustees and a more useful management tool for staff.

CHAIR SELBY thanks Mr. Stemp for a good report, and moves to the Trust Land Development Account.

TRUST AUTHORITY DEVELOPMENT ACCOUNT

MR. STEMP states that this is an analysis and recommendation within two requests out for committee consideration for these proposed actions. He continues that the first item is requesting that the committee recommend a target level for the Trust Authority Development Account with funding at \$4.05 million, reflecting the balance of the existing commitments from the TADA account.

TRUSTEE DERR makes a motion that the Finance Committee recommend to the Full Board of Trustees a target level for the Trust Authority Development Account with funding at \$4.05 million.

TRUSTEE EASLEY seconds.

MR. STEMP states that the second action is a request that the Full Board of Trustees authorize the Chief Financial Officer to transfer the balance of the TADA accounts moneys that exceed the target level to the Permanent Fund for investment. He continues that the balance of that account, as of the date of this memo, would be approximately \$16.8 million, which is proposed for transfer.

CHAIR SELBY moves to the motion and asks for any further information or questions.

MR. STEMP acknowledges that it reflects the commitments that the Trust previously made and is consistent with the messaging shared through the Legislative Audit process. That will finish the existing commitments without making new commitments.

CHAIR SELBY clarifies that this is part of the money that was advised to the Legislative Audit to be committed.

There being no objection, the motion is approved.

TRUSTEE DERR makes a motion that the Full Board of Trustees authorizes the Chief Financial Officer to transfer TADA funds that exceed the target level to the Permanent Fund for investment.

TRUSTEE COOKE seconds.

MR. ABBOTT states that both of the motions would be in the form of recommendations to the Full Board. He clarifies that nothing will happen as a result of committee actions other than the production of a recommendation for the Full Board's consideration.

CHAIR SELBY calls the vote.

There being no objection, the motion is approved.

CHAIR SELBY moves to the Reserve Fund.

RESERVE FUND

MR. STEMP states that this is a follow-up for the trustees' consideration about the Trust reserves, which is presented as information. He adds that staff is looking for a recommended allocation. This is not a request for spending authorization. He states that there is a summary of the reserves as of June 30 in the memo, which is approximately \$142.5 million. There is a summary of the assessment, and there are needs that are identified that are outside of the regular operating budget. Staff is also aware of facility needs that are presented from different communities and different beneficiary groups. He continues that in order to address those needs and maintain some flexibility and ability to assess and respond to changes, staff would like the trustees to consider allocating a part of that \$25 million reserve level. For consideration, he

recommends initial funding for the new Trust Land Office Development Account that is set at \$8 million. He continues with a second recommendation allocation of \$4.8 million to address facility needs, leaving approximately \$12 million available as reserves. The approach suggested is to continue to use the regular formal approval and consultation process for spending. This is a result of staff analysis, consultation with the Land Office staff, and the feedback received programmatically.

TRUSTEE DERR asks if the reserves are of expenditures or reserves of the budget.

MR. STEMP explains that the calculation was based on the budget, the expenditures.

TRUSTEE DERR asks what the reserves should be.

MR. STEMP replies that, for methodology, he followed that language that was presented in the Callan wording, which specifically recommended using the budget.

MR. ABBOTT explains that the reserves were set up to protect the spending capability, not the revenue capabilities. He believes that the authorized spending is the correct basis for the 400 percent calculation.

CHAIR SELBY asks if a budget amendment should be considered at the November meeting, to move these two earmarked pieces into the budgets so staff knows that they are there to work with.

MR. STEMP adds that this is not asking for permission for anything. He states that if the trustees see this direction favorable, feedback will be asked for, and we will come back with a formal recommendation to take action. Second, staff is recommending that a little less than \$5 million be allocated for facility-related projects. He reiterates that no decisions on these will be made at the committee level, but will be brought to the board meeting in November.

TRUSTEE COOKE asks if the earnings on the reserves in these reserve accounts become part of the formula that goes into the annual draw, or will it simply accumulate in the reserve account as additional reserves.

MR. ABBOTT replies that it is both. He states that in recent years the earnings have exceeded 4.25 percent. As a result, the net position of the reserves has increased significantly since 2009.

TRUSTEE DERR states that her concern is just giving direction to staff, whether they base it over the amount of money available and protecting the spending level, as opposed to protecting the expense level. She would like to give direction to keep in the reserve the amount of money that is available for budgeting to protect that buffer level rather than what has already been expended. She adds that the extra money should be protected.

TRUSTEE SMITH asks for a bit more on the thinking that went into the \$8 million figure for development projects for the TLO.

MR. STEMP replies that the 12- to 18-month forecast for work that needs to be done was discussed, which developed a target amount. There was further discussion with the chair of the Finance Committee with a reminder that there are always unanticipated needs. The chair encouraged adding an approximately 20- to 25-percent margin over the expected needs to respond to any of these unanticipated issues. He states that there is a base of about \$6 to \$6.5 million worth of expected work, and then a safety net of about \$1.5 to \$2 million to respond to any unanticipated items that come up.

TRUSTEE COOKE states that he would like clarity, especially from the TLO standpoint, as to what accounts they have or will have.

MR. STEMP replies that the idea would be the account currently called the TADA account would continue. The spending out of it would taper off as the existing commitments are fulfilled. Then it would go back to its original purpose of collecting principal receipts which would then be forwarded, on the trustees' direction, to the Permanent Fund.

CHAIR SELBY states that there is still a need to complete the discussion about setting up a cost recovery process from the new TADA account, or whatever it will be called, which does not need to be done for the November meeting. He adds, asking for some mentoring from the Attorney General's office on how that is worded so that there is a clear identification of those funds, where they originated, and retaining their identity going forward.

MR. ABBOTT states that staff has had preliminary conversations with the Attorney General's staff, and they have preliminarily opined that there is a mechanism available that would allow the Trust to set up this development account using income and to repay that account for its initial investments in projects that then yielded principal. He continues that there is more work to be done, which would require regulatory promulgation to put that in place. He adds that staff will bring forward a work plan that shows the steps that some combination of the Board and the State are going to have to take in order to set up those regs to put this process in place. We are working with the stakeholders.

CHAIR SELBY asks if there are any objections to the direction that has been described this morning. He states that there is no actual motion, but the discussion has been ongoing for a few months and it seems that staff is on track to recommending some motions at the November meeting following along those guidelines.

MR. ABBOTT states that action items for the trustees should be expected at the November 15th meeting.

TRUSTEE COOKE states that in the minutes of the August meeting there had been some discussions with the Permanent Fund Corporation about management of the commercial real estate investments that the Trust has. He asks for any updates.

MR. STEMP replies that the discussions are ongoing, and we had an opportunity to reframe the conversation with the Permanent Fund. Some additional clarifying information was provided, as well as a reminder that the purpose of the initiative here is to generate income to support the

beneficiaries. He states that they had committed verbally that they would caucus internally and come back with some comments. He continues that one of the items that is an obstacle is the compliance-related costs. They are essentially fixed costs that the Permanent Fund has to apply to meet fiduciary duties, and those are burdensome for the Trust. He adds that one potential resolution is to ask for some indemnity language to remove that responsibility from the Permanent Fund in exchange for relieving those costs. He states that there is still a pretty active dialogue for finding a solution that works for all.

CHAIR SELBY asks for any other questions. There being none, he asks for a motion to adjourn.

TRUSTEE DERR makes a motion to adjourn the meeting.

TRUSTEE BOERNER seconds.

There being no objection, the motion is approved.

(Finance Committee adjourned at 9:54 a.m.)