

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

**April 17, 2019
2:40 p.m.**

Taken at:

**Alaska Mental Health Trust Authority
3745 Community Park Loop, Suite 120
Anchorage, Alaska**

OFFICIAL MINUTES

Trustees present:

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

Trust staff present:

Mike Abbott
Steve Williams
Andy Stemp
Allison Biastock
Mike Baldwin
Travis Welch
Katie Baldwin-Johnson
Miri Smith-Coolidge

Trust Land Office present:

Wyn Menefee
Jusdi Doucet
Jeff Green
Aaron O'Quinn
Sarah Morrison
David Griffin
Bruce Buzby

Others participating:

John Sturgeon; Ken McCarty.

PROCEEDINGS

CHAIR SELBY called the Finance Committee meeting to order, noting that all members were present. He asked for any announcements. There being none, he moved to approval of the agenda.

MOTION: A motion to approve the agenda was made by TRUSTEE BOERNER; seconded by TRUSTEE SMITH.

CHAIR SELBY asked for any ethics disclosures. There being none, he asked for a motion to approve the minutes.

MOTION: A motion to approve the minutes of January 3, 2019, was made by TRUSTEE DERR.

There being no objection, the MOTION was approved.

CHAIR SELBY moved to the staff report.

STAFF REPORT

CASH MANAGEMENT REPORT

MR. STEMPEL began with the Cash Management Report as of February 28, 2019. He explained the actual expenses of the administrative activities for the year to date, and expected more to come through the State system. He stated that he would post additional activities going through the remainder of the year. He then talked about the expenses on the program side, adding that area is also on track. He continued through the report, explaining the income and expenses in various areas. He stated that the FY 2020 Payout Estimate is an attempt to update and forecast FY2020 in terms of investment values. He walked through the entire list and reconciled between where it began and the approved budget. Using the new information, a total available funding in FY20 is expected to be \$33.1 million. He added that there is an approved FY20 budget of \$31.7 million. He concluded his report.

TRUSTEE EASLEY asked about the TADA.

MR. ABBOTT explained that in the next six to 12 months, the obligations in the TADA would be met and, at that point, the TADA would be back to being a single-purpose fund which will accumulate the principal to be disposed of as the trustees determine in the future.

CHAIR SELBY moved to the FY 2020 Budget Update and recognized Mike Abbott.

FY 2020 BUDGET UPDATE

MR. ABBOTT stated that that the budget was built and approved in September of FY18. The revenue estimates basically included FY19 activity, the big one being Permanent Fund and other investment earnings. He explained that there would be some recommendations for FY20 spending changes at the Program and Planning discussion due to Governor Dunleavy's amended budget. He added that there are a few big items in the spending plan for FY20 related to

Medicaid reform with Governor Dunleavy's administration considering significant changes. The Trust may not be on board with all of them.

CHAIR SELBY asked for any questions. There being none, he moved to the follow-up on the analysis of the real estate options. He stated that the board had requested taking a closer look at four of the seven options. He recognized Andy Stemp.

REAL ESTATE OPTIONS

MR. STEMPEL stated that a financial analysis was done around each of the possible scenarios. The first one is the status quo to hold the properties and continue in their present form. There are some benefits and some drawbacks that would not satisfy the special audit recommendations. He clarified that these were discussions around the seven investment properties acquired over previous years that are managed by the personnel at the Trust Land Office; and also helped by the ground property managers. He continued that the focus of making the investments was to develop a stable stream of income to support the Trust programs. These properties were accumulated over the years. Option 2 is developed around the recommendation of the special audit which would be to manage the properties through the Permanent Fund Corporation. This would have a separately managed account with the seven properties treated as investments in that account. The Permanent Fund would assist with retaining an outside manager and would be a separate project outside of the regular Permanent Fund portfolio. He added that there are some benefits by providing additional reporting resources and augmenting the TLO capabilities. This would fulfill the legislative audit recommendation without locking into a long-term management agreement. The original proposal would be for a one-year term, which would then be re-examined. Option 3 is a slightly different approach which would be to take \$39.5 million of current spendable reserves and move that into the Trust fund to replace the principal. Then, move forward with the management of the properties through existing staff at the TLO. This would be a way of extinguishing some of the previous questions that have come up. He continued that management believes that this will partially satisfy the audit recommendation. Option 4 is to retain the real estate in the status quo format, but then develop a replacement schedule where transfer would be made over time to send a total of 39.5 million to the Permanent Fund. That would be funded from the earnings of the portfolio and could be conservatively accomplished over a 15-year time frame. He added that this approach would be a slow but sure way to fulfill the special audit recommendations. He asked for direction from the board to help moving forward in this area.

MR. ABBOTT added that, in conversation with a couple of legislators on this topic, Senator Stedman was concerned that Option 3 would not satisfy the folks that were concerned about the Trust continuing to own the real estate assets. He felt that the simplest answer was to transfer the assets to the Permanent Fund along the lines of Option 2. Similar concerns were expressed by several other legislators.

TRUSTEE COOKE stated that, in view of those comments, if a fifth option to sell the properties should be looked at.

MR. ABBOTT stated that contemplation of selling the properties at advantageous times was always a consideration. He continued that there is still the need to have processes in place to guide the decision-making about when a sale might make sense and what to do with sale

proceeds should a sale take place.

TRUSTEE SMITH stated that he would favor looking more closely at Options 3 and 4, and explained his reasoning. He added that it would make sense to have a third-party consultant to begin thinking about the future of what is owned.

CHAIR SELBY stated that No. 1 is interesting because it gives a benchmark about the way the properties were acquired and how they are managed. He continued that he cannot support the Permanent Fund appropriation which would divert \$3.5 million of program funds that help beneficiaries. The whole idea in the first acquisition was to create cash flow for the beneficiaries and for the program. The only other one that comes close is Option 3, and he would like to focus the discussion for two major reasons: No. 1, it resolves the legislative audit, which would then free the board to have an opportunity to hire a third party.

TRUSTEE DERR agreed and stated that her concern was reducing the reserve to 375 percent. She continued that she would like to see the reserve stay at 400 percent to have a little buffer.

TRUSTEE COOKE stated that the clash remains between the economic realities of managing this real estate and what some people believe that the legislation requires in terms of what is done with the revenue and putting it into the Permanent Fund account, which is still Trust money. He also did not like No. 2 for the reasons stated; and liked No. 3 for the reasons discussed. He would like a closer analysis of the money flow.

TRUSTEE MICHAEL supported having real estate as part of the portfolio not only for the purposes of generating revenue, but also as a program-related investment. She also stated support of having a professional advising the Trust on a constant basis of what the valuations are when the market is right; and would also like to take what is made from that and reinvest it into something equally as profitable. She supported the recommendation to look at Option 3.

CHAIR SELBY moved to the motion.

MOTION: A motion that the Finance Committee recommend that the Full Board of Trustees authorize the transfer of \$41,300,000 from the budget reserve to the Mental Health Trust Fund. In combination with this transfer, the seven properties identified as real estate investments will be designated as long-term investments within the budget reserve. Proceeds from any subsequent sale of these properties will flow into the budget reserve, was made by TRUSTEE DERR; seconded by TRUSTEE BOERNER.

TRUSTEE COOKE asked about the effect of changing the wording to “authorize the transfer of up to \$41,300,000.

MR. STAMP replied that this came back to the trustees’ original spirit of being free of the audit legacy. He stated that the commercial real estate portfolio got most of the attention. The audit also determined that about \$1.8 million of TADA funds that had been allocated by the board for program-related facility investments was also inappropriate because the Trust should not have used principal either to purchase commercial real estate or to invest in program-related facilities. It made sense to include them and make a single transfer and alleviate both of the audit findings

related to this issue.

CHAIR SELBY urged the board, over the next year and a half or so, to work with staff and get on the record a long-term real estate policy.

TRUSTEE BOERNER agreed.

TRUSTEE COOKE stated that he was in favor of sending this on to the board for consideration.

CHAIR SELBY asked for any further discussion. There being none, he asked for any objections to the motion.

There being no objection, the MOTION was approved.

CHAIR SELBY moved on to an update on investment policy.

INVESTMENT POLICY UPDATE

MR. ABBOTT stated that No. 3 of the audit recommendations suggested the Trust evaluating and potentially updating its asset management program; and staff agreed. He continued that Callan & Associates, investment adviser for the Alaska Permanent Fund and others in Alaska, were contracted to review the existing plan and comment on it. An initial draft of their recommendations was received. He asked Mr. Stemp to continue.

MR. STEMPE stated that the majority of the recommendations are grouped in five areas. The first is an expanded description and definitions around roles and responsibilities of key staff and providers. The Trust has evolved over time and more clarity is always helpful. The second point is the revisions for performance measurement and risk metrics. This would be beneficial because of the constantly changing industry expectations. This would make sure the documents have the most current and up-to-date benchmarks and risk metrics that the industry applies. He continued that the third one is review and oversight of the managers, which is currently being done. There are some changes in key terms, definitions and benchmarks. There are also some goals for the Trust. Historically, a reference point of saying CPI, Consumer Price Index, plus 5 percent. That is not a valid benchmark for specific portions of the Trust investments. He moved to the final area, which is the actual review process. There is no schedule published in the documents giving the timetable to make sure the policies are regularly reviewed. These five areas from Callan are largely intended to help move to a higher level and a better-quality set of documents. He added that was a preview of what can be expected in the future from this Callan project.

TRUSTEE COOKE asked for clarification about the policies.

MR. STEMPE replied that the policies that are being referred to are the internal policies. The Trust, on the whole, has a policy that deals with the investment and a policy dealing with the assets and resources. He stated that the auditor's report brought forth the benefit of having a third party check in and make sure all the items are up to date; more of a good housekeeping kind of update. He concluded his update.

CHAIR SELBY asked for any further comments, then asked for any further business for the committee. He thanked the staff for all the efforts put into analyzing the four options and all of the information. He appreciated all the efforts to give good, solid information; an outstanding job. He adjourned the meeting.

(The Finance Committee Meeting adjourned at 4:30 p.m.)