

To: Chris Cooke, Chair
Through: Mike Abbott, Chief Executive Officer
From: Carol Howarth, Chief Financial Officer
Date: April 28, 2020
Re: Finance Committee Report

REQUESTED MOTION #1:

Approve the incremental building expenditures, totaling \$10,405,837 budgeted for the fiscal year 2021 to be paid by the property manager from rents and other income collected from the properties.

REQUESTED MOTION #2:

Approve funding the expenditures for the Non-Investment/Program Related Real Estate and REMP Real Estate – Trust Funded properties in the amount not to exceed \$53,032 for the fiscal year 2021 from the Central Facility Fund, which appropriation shall not lapse.

REQUESTED MOTION #3:

Instruct the CFO to transfer up to \$53,032 to the third-party property manager, as requested by the TLO, for capital improvements to the Non-Investment/Program Related Real Estate and REMP Real Estate – Trust Funded properties.

REQUESTED MOTION #4: Not Moved Forward

Evaluate refinancing of the TLO commercial real estate assets under an interest-only structure and alternatives. The evaluation should incorporate strategic factors including asset holding periods and select assets' near-term refinancing requirements.

Meeting Summary:

There has been one meeting of the Finance Committee since the last board report, occurring on April 22, 2020. The meeting was attended via the online WebEx platform by trustees Laraine Derr (chair), Vernè Boerner, Rhonda Boyles, Chris Cooke, Anita Halterman, Ken McCarty and John Sturgeon.

The April 22, 2020 Finance Committee addressed nine items:

Update on Mental Health Trust Fund and Reserves: Angela Rodell, CEO of the Alaska Permanent Fund Corporation (APFC) presented an overview of investment strategy of the APFC since first managing the Trust Fund, provided an overview of fund performance, and commented on recent market volatility and the importance of taking a “long view.” She discussed observations of the COVID-19 impact, providing anecdotal examples, such as of how changing work methods could create permanent shifts in industry segment performance.

Financial Dashboard and Revenue Update: The Committee reviewed the dashboard and asked questions and provided feedback to staff. It was noted Administrative costs were below plan, TLO revenues were strong through 3Q20, but Reserve funds were substantially down, and would close the year well below Plan. It was noted that the TADA Transfer Request approved in the January 2020 Finance Committee meeting was in transit to the Mental Health Trust Fund.

FY2021 Budget Update: Staff shared that the declines in investment returns in our APFC and DOR Reserve accounts will reduce the annual Payout. Staff shared that by May’s full board meeting, Staff should have more clarity on the expected performance of all Trust revenue sources and of the current market environment’s impact on future budgets. The Committee and Staff discussed the four-year averaging of revenues to smooth out year-over-year swings in value—both upward and downward—and the sustainability of using the 4.25% draw from that average for operational funding. Also discussed was the Board’s decision to maintain some unallocated revenue in the FY21 Plan, which provides additional buffer in the upcoming year.

TLO Commercial Real Estate Performance & Recommendations: Harvest Capital Partners presented its assessment of the TLO’s commercial real estate portfolio performance—overall and by property—concluding performance has exceeded the performance of real estate benchmarks and comparables. It also noted that the portfolio is performing above norm in the current Covid-19 market environment. It recommended refinancing the assets using an interest-only mortgage structure, and engaging a mortgage broker to market the portfolio to lenders. Advantages noted included lower interest rates (estimated 3.5% or lower), increased cash flow to the Trust (\$2.2MM per year over 8 years), greater financial flexibility (an ability to choose when to make principal payments).

COVID-19 Effects on FY21 Real Estate Cash Flows: TLO staff presented an overview on the impact that COVID-19 is expected to have on the cash flow generated by commercial real estate, and the methods it is using to manage potential rent abatement requests.

FY21 Real Estate and Program-Related Real Estate Facility Budgets: Staff discussed that in FY21 Commercial Real Estate and Program Related properties’ gross revenue is anticipated at \$11.8MM and operating, capital costs and debt service at \$10.4MM. The Committee reviewed and approved the TLO staff recommendations to fund \$10.4MM in building expenditures to be funded by the properties’ operating income. The Committee also discussed the TLO staff recommendation to fund \$53K from the Central Facility Fund (CFF) for maintenance and repair of the Trust Authority Building. Staff noted that \$15K is for capital expenditures and \$38K is to fund operational needs, as the building does not bring in sufficient rent from the 1st floor tenants to cover costs. After discussion about the purpose and sustainability of the CFF, the Committee approved the motion.

Real Estate Portfolio Refinance: The Committee informed Staff that a motion was not required to evaluate refinancing options for the commercial real estate assets. The Committee members shared issues and concerns for which they would like answers before further consideration. These included market timing, an understanding of alternatives against the status quo, the need for reserves to address balloon payments. Trustees expressed views that formed a general consensus that having a professional

assessment incorporating alternatives would help: better informing them such that they can make decisions that focus on enhancing returns for beneficiaries within the landscape the Trust operates.

Inflation Proofing Discussion: Because the Trust's reserve accounts declined to 250% of the annual payout and no longer exceeded the 400% target, this discussion was postponed until a later date.

Update on Investment Policy: Staff informed the Committee that the Trust and Trustees are in compliance with the Investment Policy, and outlined upcoming action dates. Staff informed the Committee that some clarification is needed for the CFF.

Finance Committee concluded at approximately 12:53pm. The next scheduled meeting of the Finance Committee is ***July 30 2020***.