Commercial Real Estate

Finance Committee

September 16, 2020

Trust
Alaska Mental Health Trust Authority
25 YEARS

Issue and Recommendation

Issue

- What is the best option to maximize cash generation from Trust commercial real estate for long-term benefit of beneficiaries?

Recommendation:

- Prudently refinance current CRE debt service requirements
    - reduce debt service requirements
    - maintain flexibility to allow for future property sales

Evaluation Approach

Four Options Evaluated

1) Hold Properties – Use Cash for Balloon Payments
2) Hold Properties – Refinance
3) Liquidate Properties and Invest Proceeds with APFC/DOR, and
4) Sell 2-3 Properties – Hold the Remainder

Evaluation Metrics

1) Long-term: Cash flow comparison using Present Value
2) Near-term: Investment distributions

Results using probable scenario analysis demonstrate maintaining CRE is superior to investment in APFC managed funds

PRESENT VALUE OF EXPECTED FUTURE DISTRIBUTIONS				
	Status-Quo	Status Quo	Liquidate Properties	Liquidate 2-3 Properties
	Use Cash for Balloon Payments	Refinance	Invest Proceeds in APFC	Invest Proceeds in APFC
Expected	**$138.0m**	**$137.5m**	**$63.0m**	
High	*$205.8m*	*$227.9m*	*$96.1m*	
Low	*$90.6m*	*$105.6m*	*$38.3m*	
Example - Rulon & Commercial				
High				*$258.8m*
Low				*$73.1m*
Example - Israel & San Pedro				
High				*$191.8m*
Low				*$47.4m*

Near-term cash flows strongly favor maintaining CRE and interest-only refinancing

EXPECTED ANNUAL DISTRIBUTIONS					
	Status-Quo	Status Quo	Liquidate Properties	Liquidate 2-3 Properties / Invest Proceeds in APFC	
	Use Cash for Balloon Payments	Refinance	Invest Proceeds in APFC	Ex: Rulon & Commercial	Ex: Israel & San Pedro
FY21	$1,280,786	$3,404,795	$1,280,786	$1,280,786	$1,280,786
FY22	($3,390,121)	$4,634,652	$2,884,169	($4,145,869)	($4,177,707)
FY23	$6,014,789	$7,537,726	$652,931	$5,053,483	$3,886,958
FY24	$3,955,893	$5,478,831	$1,394,008	$3,083,942	$3,597,104
FY25	($2,278,926)	$7,623,283	$2,209,938	($3,588,691)	($4,211,106)
FY26	$3,541,533	$4,428,529	$3,082,235	$2,214,386	$3,849,429
Total, 6-yr	$9,123,953	$33,107,815	$11,504,067	$3,898,036	$4,225,464

Nominal, Illustrative purpose only

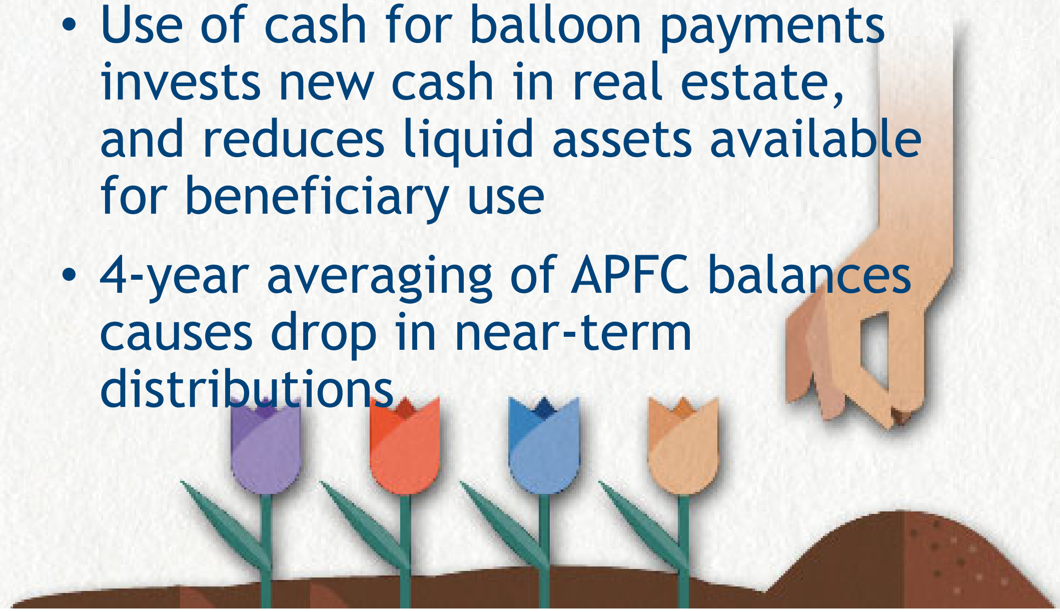
Key take-aways

Interest-Only Financing

- Best balance of Trust income for immediate use, asset value growth over time and limited risk
- Added cash flow flexibility is best practice for institutional investors
- Potential for lower all-in debt service

Considerations Against Other Options

- Market conditions uncertain for near-term liquidation
- Use of cash for balloon payments invests new cash in real estate, and reduces liquid assets available for beneficiary use
- 4-year averaging of APFC balances causes drop in near-term distributions



Discussion

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