

## MEETING AGENDA

**Meeting:** Finance Committee  
**Date:** January 7, 2021  
**Time:** 8:30 AM  
**Location:** online via webinar and teleconference  
**Teleconference:** (844) 740-1264 / Meeting Number: 177 591 8585 # / Attendee Number: #  
<https://alaskamentalhealthtrust.org/>  
**Trustees:** Anita Halterman (Chair), Verné Boerner, Rhonda Boyles, Chris Cooke, Annette Gwalthney-Jones, Ken McCarty, John Sturgeon

Thursday, January 7, 2021

Page No.

<b>8:30 am</b>	<b><u>Call Meeting to Order (Anita Halterman, Chair)</u></b> Roll Call Announcements Approve Agenda Ethics Disclosure Approve Minutes <ul style="list-style-type: none"> <li>October 21, 2020</li> </ul>	4
<b>8:35</b>	<b><u>Statutory Advisor Update</u></b> Angela Rodell, Chief Executive Officer, Alaska Permanent Fund Corporation	
<b>9:20</b>	<b><u>Dept of Revenue / Treasury Update</u></b> Zach Hanna, State Investment Officer, State of Alaska Steve Sikes, Senior Investment Officer, State of Alaska	
<b>10:00</b>	<b>Break</b>	
<b>10:15</b>	<b><u>Staff Report Items</u></b> Financial Dashboards – Carol Howarth, CFO Inflation Proofing – Carol Howarth, CFO	hand-out 10
<b>11:30</b>	<b><u>Approval</u></b> FY2021 Pay-Out Central Facility Fund Approval AS 37.14.041(b) Compliance CRE Refinancing Authorization	23 24 25 29
<b>12:15</b>	<b>Adjourn</b>	

## Future Meeting Dates

### Full Board of Trustee / Program & Planning / Resource Management / Audit & Risk / Finance

(Updated – December 2020)

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- |  |                             |                        |
|--|-----------------------------|------------------------|
| • Program & Planning Committee             | January 6, <b>2021</b>      | (Wed)                  |
| • Audit & Risk Committee                   | January 7, <b>2021</b>      | (Thu)                  |
| • Finance Committee                        | January 7, <b>2021</b>      | (Thu)                  |
| • Resource Mgt Committee                   | January 7, <b>2021</b>      | (Thu)                  |
| • Full Board of Trustee                    | January 27-28, <b>2021</b>  | (Wed, Thu) – TBD       |
|  |                             |                        |
| • Audit & Risk Committee                   | April 21, <b>2021</b>       | (Wed)                  |
| • Finance Committee                        | April 21, <b>2021</b>       | (Wed)                  |
| • Resource Mgt Committee                   | April 21, <b>2021</b>       | (Wed)                  |
| • Program & Planning Committee             | April 21, <b>2021</b>       | (Wed)                  |
| • Full Board of Trustee                    | May 26, <b>2021</b>         | (Wed) – TBD            |
|  |                             |                        |
| • Program & Planning Committee             | July 27-28, <b>2021</b>     | (Tue, Wed)             |
| • Audit & Risk Committee                   | July 29, <b>2021</b>        | (Thu)                  |
| • Resource Mgt Committee                   | July 29, <b>2021</b>        | (Thu)                  |
| • Finance Committee                        | July 29, <b>2021</b>        | (Thu)                  |
| • Full Board of Trustee                    | August 25-26, <b>2021</b>   | (Wed, Thu) – Anchorage |
|  |                             |                        |
| • Audit & Risk Committee (tentative)       | October 20, <b>2021</b>     | (Wed)                  |
| • Finance Committee (tentative)            | October 20, <b>2021</b>     | (Wed)                  |
| • Resource Mgt Committee (tentative)       | October 20, <b>2021</b>     | (Wed)                  |
| • Program & Planning Committee (tentative) | October 21, <b>2021</b>     | (Thu)                  |
| • Full Board of Trustee                    | November 17-18, <b>2021</b> | (Wed, Thu) – Anchorage |

## Future Meeting Dates Statutory Advisory Boards (Updated – December 2020)

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### **Alaska Mental Health Board / Advisory Board on Alcoholism and Drug Abuse**

- Executive Committee – monthly via teleconference (Third Wednesday of the Month)

### **Governor’s Council on Disabilities and Special Education**

- February 1-2, 2021 – via zoom

### **Alaska Commission on Aging**

- February 17-18, 2021 – via zoom

**ALASKA MENTAL HEALTH TRUST AUTHORITY**

**FINANCE COMMITTEE MEETING**

**October 21, 2020**

**10:00 a.m.**

**WebEx Videoconference/Teleconference**

**Originating at:**

**3745 Community Park Loop, Suite 120**

**Anchorage, Alaska**

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**Trustees Present:**

Chris Cooke, Chair

Rhonda Boyles

John Sturgeon

Ken McCarty

Verne' Boerne

Annette Gwalthney-Jones

Anita Halterman

**Trust Staff Present:**

Mike Abbott

Steve Williams

Carol Howarth

Miri Smith-Coolidge

Kelda Barstad

Luke Lind

Michael Baldwin

Carrie Predeger

Katie Baldwin-Johnson

Jimael Johnson

Valette Keller

Allison Biastock

Kat Roch

Katie Vachris

**Trust Land Office:**

Wyn Menefee

Sarah Morrison

Jusdi Doucet

David MacDonald

**Also participating:**

Beverly Schoonover; Kristin Vandagriff; Becky Carpenter; Sheila Harris; Laraine Derr.

## PROCEEDINGS

### CALL TO ORDER

CHAIR COOKE called the meeting to order and began with a roll call. With all of the trustees present, he began with announcements. He stated that he was acting chair as Lorraine Derr was no longer with the Trust. Her seat was recently filled by Annette Gwaltney-Jones, and he extended his welcome to her. He continued that he would appoint someone to be Finance Committee Chair by the next board meeting in November. The main responsibilities are to chair the Finance Committee meetings and work with staff in preparing for those meetings. He moved on and asked for a motion to approve the agenda.

### APPROVAL OF AGENDA

**MOTION:** A motion to approve the agenda was made by TRUSTEE HALTERMAN; seconded by TRUSTEE McCARTY.

*After a roll-call vote, the MOTION was approved. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Gwaltney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, yes; Trustee Halterman, yes.)*

### ETHICS DISCLOSURES

CHAIR COOKE asked for any ethics disclosures. Hearing none, he moved to the approval of the minutes. He asked for a motion for the July 30, 2020, meeting.

### APPROVAL OF MINUTES

**MOTION:** A motion to approve the July 30, 2020, minutes was made by TRUSTEE BOYLES; seconded by TRUSTEE HALTERMAN.

*After a roll-call vote, the MOTION was approved. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Gwaltney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon; Trustee Halterman, yes.)*

CHAIR COOKE asked for a motion for the September 16, 2020, minutes.

**MOTION:** A motion to approve the minutes of September 16, 2020, was made by TRUSTEE HALTERMAN; seconded by TRUSTEE McCARTY.

CHAIR COOKE stated that meeting dealt primarily with the commercial real estate and was more of an informational meeting than an action meeting. He called the question.

*After a roll-call vote, the MOTION was approved. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Gwaltney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, yes; Trustee Halterman, yes.)*

CHAIR COOKE moved on to staff reporting items and recognized Carol Howarth.

### STAFF REPORTS

MS. HOWARTH began with the final numbers that were incorporated in the audited financials for fiscal year 2020. She stated that there is the full-year total, the full-year budget, and the

variance to plan. She noted the Trust expenditures, then the revenue and then the assets. In terms of the operating administrative activities, both the Trust Authority Office and the Trust Land Office were below plan, primarily due to reduced staffing and travel activities. Also because the State changed the charge-back processes which resulted in less charges coming from shared services. She continued her report, explaining and answering questions as she went through the revenue and the assets. She updated the dashboard that was seen in July with final numbers and then moved to the first quarter. She stated that it was important to recognize that the reserves are fluctuating, and are not the corpus. There is still a period of extraordinary volatility regarding the stock market, and the primary source of funding.

CHAIR COOKE stated, regarding reserves, that it may be appropriate to have a meeting or work session to discuss what to do with the surplus in the reserves account. He continued that some decisions ought to be made to either go on with what we have or develop a plan to utilize them in one way or another.

MR. ABBOTT agreed and stated that the Asset Management Policy Statement would suggest that the first priority for the use of excess reserves would be for inflation-proofing the Trust Fund. He added that this was imperative. He continued that the intent is to begin exploring with the committee in 2021 what inflation-proofing would look like and how that would affect the level of reserves there right now.

CHAIR COOKE agreed that there was an issue there that needs discussion and a decision, but not today.

MS. HOWARTH stated that as the Trust thinks strategically about the funds in the reserves, it is important to remember that both the reserves at the Permanent Fund and the Department of Revenue are managed the same as the corpus, and they are still generating the return seen in the investment performance. She moved to the revenue projections and stated that revenue is broken into categories and talked about them. She then discussed the lapsed appropriations, which are funds that have been budgeted for projects but not expended, and the moneys have expired. This year there are \$3.7 million rolling into the lapsed funds for fiscal year '20 from prior-year projects. She explained that there is basically \$3 million that can contribute to the overall available funding for the budget year. She moved to the Trust Land Office spendable income, and recognized Sarah Morrison.

MS. MORRISON stated that the TLO spendable income is deposited directly in the checking account and the prior year goes into spendable income for the next year. She explained that the spendable income is inclusive of distributions from the real estate investment properties. It was a good year, and we were on plan for most of the resource categories. She continued that there was good performance in surface leases, and we were over plan in timber sales. Overall, we were very close to plan.

MS. HOWARTH moved to cash management and stated that this was the interest earned off of the operating accounts, and it averaged out at just under a million dollars. She stated that normally there is money left over from prior years based on what is available versus what was budgeted. In this case, the trustees approved COVID response and ended with \$404,000 left in unobligated funding out of the total that was available from last year's revenue estimate. She then gave the trustees a snapshot of what the revenue forecasts could look like in the future.

She asked Ms. Morrison to continue.

MS. MORRISON talked about the funds being held in the reserves which should provide a bit of a boost to the fund availability for the disbursement. It was critical to note that in FY21 all the payments for the \$20 million Subport sale will be transferred to revenue and then moved to the Permanent Fund. She explained more of the Trust Land Office revenue that would go into this bucket of money with the principal. She then talked about the spendable income which should be a nice boost. She added that another new area is the big-game guides, which should bring in a few hundred thousand.

CHAIR COOKE asked about the big jump in assets for next year.

MR. ABBOTT explained that a significant principal revenue is expected over the next couple of years, which is a big source of it. He stated that the out-year projections will be wrong in that they may be higher or lower.

CHAIR COOKE noted that this was a heavy, substantive presentation and stated appreciation for all the effort gone into providing this material. He added that it was an excellent job of communication of this information. He moved to the two motions that were requested.

**MOTION:** A motion that the Finance Committee recommended that the Board of Trustees approve setting a target level for Trust Authority Development Account funds at \$1,710 million was made by TRUSTEE BOERNER; seconded by TRUSTEE HALTERMAN.

CHAIR COOKE asked for discussion.

MR. ABBOTT stated that it is pretty clear. There is currently \$1.41 million worth of anticipated obligations in the Trust Authority Development Account to continue paying for the Icy Cape exploration work and the US Forest Service land exchange development expenses.

CHAIR COOKE called the question.

*After a roll-call vote, the MOTION was approved. (Trustee Boerner, yes; Trustee Gwalthney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, yes; Trustee Halterman, yes; Trustee Cooke, yes.)*

CHAIR COOKE moved to the next motion.

**MOTION:** A motion that the Finance Committee recommends the Board of Trustees authorize the Chief Financial Officer to transfer TADA funds that exceed the target level of the Alaska Permanent Fund Corporation for investment in the Trust Fund was made by TRUSTEE HALTERMAN; seconded by TRUSTEE STURGEON.

MR. ABBOTT explained that this was the standard annual authorization that would allow the CFO to move funds that accumulate in the TADA account beyond those that are necessary to meet those obligations described in the previous motion. This would authorize it for the balance of the year.

CHAIR COOKE asked what would become of the TADA account ultimately.

MR. ABBOTT replied that once the obligations described have been fully expended, it would not be appropriate to describe this account as a development account. Instead, it will be an account where principal earnings are deposited temporarily and then ultimately transferred, after board approval, to the Trust Fund. He added that it may also make sense to rename the account at that point. Proposals to that effect will be brought forward when the grandfathered allocations are ultimately satisfied.

CHAIR COOKE called the question.

*After a roll-call vote, the MOTION was approved. (Trustee Boerner, yes; Trustee Gwalthney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, yes; Trustee Halterman, yes; Trustee Cooke, yes.)*

### **ASSET PERFORMANCE REVIEW**

CHAIR COOKE moved to the asset performance review and asked if there was a handout.

MR. ABBOTT replied that it would be distributed to the trustees shortly. He explained that the charters anticipate that the trustees will be involved in a periodic investment review. This will be the first time going through this process since the charters created this expectation. What will be explored is looking at what this should look like and then work to come up with a way of doing this that suits the trustees and meets the expectations in the charters. Staff will work with the new Finance Committee Chair on the next steps. He stated that the goal is simply to introduce the topic. He asked Ms. Howarth to continue.

MS. HOWARTH stated, with regard to the charter, there are some expectations regarding to the Finance Committee. There are two elements: one of them is the Finance Committee does a review of the performance of the Permanent Fund, Department of Revenue, and then the TLO. She gave a high-level perspective of the current performance of all the assets. She added that this is a method that endowments use to look at the inflation-proofing of their total funds. This was interesting because it painted a picture that the Mental Health Trust's assets and the Trust Fund are in healthy positions. She also gave a high-level perspective of the categories of the accounts that fit those total assets. She then looked at the performance of the accounts and explained as she went through the information.

A short question-and-answer discussion ensued.

CHAIR COOKE asked for any other questions or comments or anything further on the Finance Committee matters from staff. There being none, he asked for a motion to adjourn the Finance Committee.

**MOTION: A motion to adjourn the Finance Committee meeting was made by TRUSTEE HALTERMAN; seconded by TRUSTEE STURGEON.**

*After a roll-call vote, the MOTION was approved. (Trustee Boerner, yes; Trustee Gwalthney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, yes; Trustee*

*Halterman, yes.)*

(Finance Committee meeting adjourned at 12:05 p.m.)

## MEMO

**To:** Anita Halterman, Finance Committee Chair  
**Through:** Mike Abbott, Chief Executive Officer  
**From:** Carol Howarth, Chief Financial Officer  
**Date:** December 22, 2020  
**Re:** Inflation Proofing

The purpose of this memo is to provide trustees with historical information and policy requirements regarding inflation-proofing of the Mental Health Trust Fund (“principal”) held at the Alaska Permanent Fund Corporation (“APFC”).

The objective of inflation-proofing is to maintain the purchasing power of the Trust principal for future beneficiaries by depositing funds in the principal balance sufficient to offset lost purchasing power due to inflation.

### **Deposits to Trust Principal to Date for Inflation Proofing**

Since the Alaska Mental Health Trust Authority’s inception a total of \$85,821,098 has been transferred to Trust principal for inflation proofing. A summary of inflation-proofing actions is provided in the following table.

<b>Year</b>	<b>Inflation-Proofing Transfer (\$)</b>
FY1995	\$ 3,533,000
FY1998	6,910,543
FY2000	41,544,000
FY2003	11,059,800
FY2005	15,337,401
FY2008	2,436,354
FY2018	5,000,000
Total	\$85,821,098

## **Historical Information**

Since Trust inception, a guiding principle of the Trust's Asset Management Policy Statements (AMPS) has been to maintain the purchasing power of Trust principal, "including the effects of inflation, by using the reserve model consisting of the Budget Reserve account originally recommended by Callan Associates..." This reserve model a) bases Trust spending on a percent of the market value (POMV) of Trust cash investments and b) relies on building a budget reserve of 400% of approved spending from which spending is drawn.

In its April 1997 report, Callan observed that this policy would meet "the dual objectives of preserving and enhancing the Fund's purchasing power and producing a distribution stream that grew more rapidly than inflation."

At the time of Callan's recommendation, this method of protecting fund corpus from the effect of inflation was fairly new and being incorporated into American endowments' policies. This affected a shift away from applying an inflation index (such as the Consumer Price Index, CPI) to principal, and depositing inflation proofing funds into fund principal if required. Instead, endowment fund goals were to maintain a positive 'real return' (the actual percentage financial return less the rate of inflation). By maintaining a positive real return and ensuring the POMV spending rate was below that real rate, inflation would be covered and the total endowment fund would be growing.

To understand the distinction between the two methods, it is useful to compare the Alaska Permanent Fund, formed in 1976, and the Trust, formed twenty years later. The Alaska Permanent Fund is statutorily obligated to use the first method, and the method of inflation proofing is statutorily defined: subject to appropriation, APFC annually transfers from budget reserves into its principal account an amount to offset inflation. In contrast, Alaska statute provides Trustees with discretion: in the calculation, the frequency, the amount and the fund destination.

- Trust practices have been to monitor the CPI and fund balances. More recently, the CPI-All Urban Consumers (CPI-U) has been defined as the metric in the AMPS;
- Trustees statutorily and by policy, may inflation proof; and the AMPS further clarifies when: when Budget Reserves exceed 400% of the spending target;
- Trustees may partially or fully inflation proof principal; and
- The policies in place allow the Trust to inflation proof both within Budget Reserves (using the reserve model) and within the Trust principal account (with designated transfers to principal).

The result is Trustee flexibility. This flexibility does not imply that the Trust does not need to inflation proof. While the enabling statute does not explicitly require the principal to be inflation proofed, it has been considered one of the core requirements since inception, and Trustees have an obligation to maintain the purchasing power of the Trust funds according to trust law and Alaska statute regarding institutional funds. Trustees may either, so to say, hard inflation proof or soft inflation proof.

Hard Inflation Proofing: When Trustees transfer funds into the principal account, the funds are irretrievably deposited. The intent of the transfers is to build a corpus with equivalent purchasing power today as when deposits were made. As of Fiscal Year-End 2020, the Trust would need to transfer \$107,994,000 from Budget Reserves to compensate for lost purchasing power of the Trust's principal account over time. <sup>1</sup>

Summary FY2020

Initial Principal Contributions	\$200,036,000
Subsequent Principal Contributions:	<u>\$ 141,496,000</u>
Total Principal Contributions:	\$341,532,000
Contributions for Inflation Proofing:	<u>\$ 85,821,000</u>
FY2020 Principal Balance	\$427,353,000
 Inflation Adjusted Principal Balance:	 <u>\$535,347,000</u>
 Inflation Proofing Shortfall:	 \$(107,994,000)

Excess Budget Reserves at fiscal year-end 2020 totaled \$56,679,000. There is a \$51,315,000 shortfall in Budget Reserves if Trustees desired to fully inflation proof the principal account.

Soft Inflation Proofing: Using the reserve model, funds need not be transferred to principal to inflation proof. Funds may stay in reserves. By managing spending at a rate below the real rate of return, the growth of the cash assets—principal and earnings—builds a total fund balance that has an increasing purchasing power and supports spending growth. One evaluates the market value of Budget Reserves and Trust principal against what the total balance “should be” if the AMPS is followed.<sup>2</sup> As of Fiscal Year-End 2020, there was a \$33,572,000 shortfall in funding.

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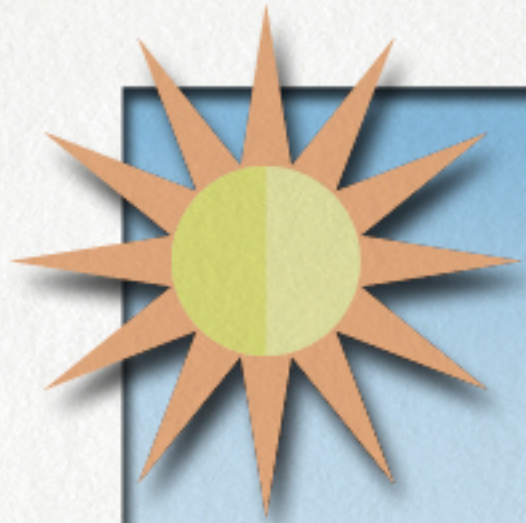
<sup>1</sup>This amount is calculated using the method defined by statute, subject to appropriation, for inflation proofing the Alaska Permanent Fund: calendar year-end inflation rate (CPI-U) applied to the fiscal year end principal balance.

<sup>2</sup> For example if in a given year inflation is 2%, the return target is a 5% real return, the Trust needs to earn 7%. (7% less 2% inflation = 5% real rate). If the planned payout is 4.25%, after the payout, there should be an increase of 2.75% in reserve balances. (5% real rate less 4.25% = 0.75% left over, yet the Trust must also maintain inflation proofing of 2%, for a total of 2.75% increase).

Summary FY2020

Principal Corpus:	\$341,532,000
Nominal Earnings:	<u>\$246,376,000</u>
Total Funds (Principal & Budget Reserves):	\$587,908,000
Implied Inflation-adjusted Principal Contributions:	<u>\$524,852,000</u>
Reserve Funding Available for Allocation:	\$ 63,056,000
Target Budget Reserves (400% FY21 Payout):	\$ 96,628,000
Budget Reserve or Inflation Proofing Shortfall:	\$ 33,572,000

With this calculation, one can consider this either a \$33.6MM shortfall in Budget Reserves or in Inflation Proofing.



# Inflation Proofing

Finance Committee

January 7, 2021



# Trustees may consider inflation proofing the Mental Health Trust Fund

## AS 37.14.041(a)(5)

May use spendable funds to offset the effects of inflation on the value of the Trust Fund's principal

## Asset Management Policy Statement

Maintain reserve model of 400% Reserves and 4.25% draw.

If Budget Reserves are fully funded, "funds may be used to help offset the effects of inflation..."



# Inflation Proofing has different interpretations

## Book Value Perspective

- Additions to Fund corpus, based on CPI-U, should offset the erosion of purchasing power due to inflation

➤ E.g., this is APFC's statutory requirement

## Market Value Perspective

- Real earnings (earnings adjusted for inflation) of 5% over a full market cycle should support a 4.25% spending policy.

➤ This, plus ability to contribute to the corpus, is the current AMPS policy

*The difference between the two is due to changes accounting standards in the early 1990s related to valuing liquid assets*



# FY 2020 Snapshot of Trust Fund, Inflation Proofing, and Budget Reserves

*Since Inception, \$85.8 MM in earnings have been deposited into the Trust's Principal account.*

## Fund Balances

Initial Principal Contribution:	\$200,034,000
Subsequent Principal Contributions:	141,496,000
Contributions for Inflation Proofing:	<u>85,821,000</u>
Total Trust Principal:	\$427,353,000



# Trust Statute and AMPS provides Trust with decision making flexibility

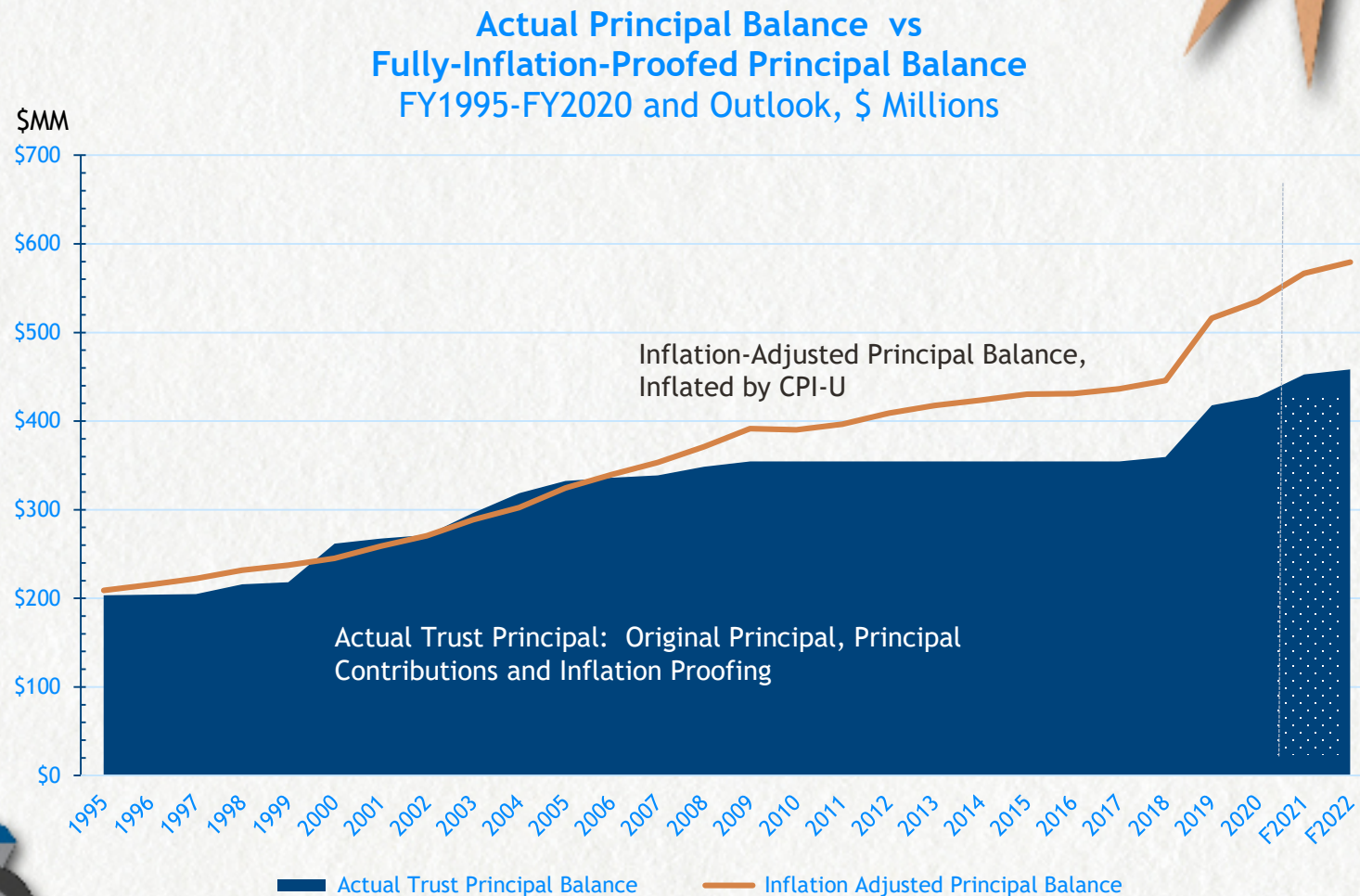
- Trustees are obligated to protect the purchasing power of Trust funds
- However, there is discretion:
  - How inflation proofing is calculated
  - Frequency of inflation proofing
  - The amount to contribute to principal
  - The location—principal or budget reserves



# Book Value Perspective: Inflation proofing with CPI-U based contributions

FY20 year-end corpus shortfall with no action:

- \$108MM based on principal + inflation proofing balances
  - FY22 forecast \$121MM

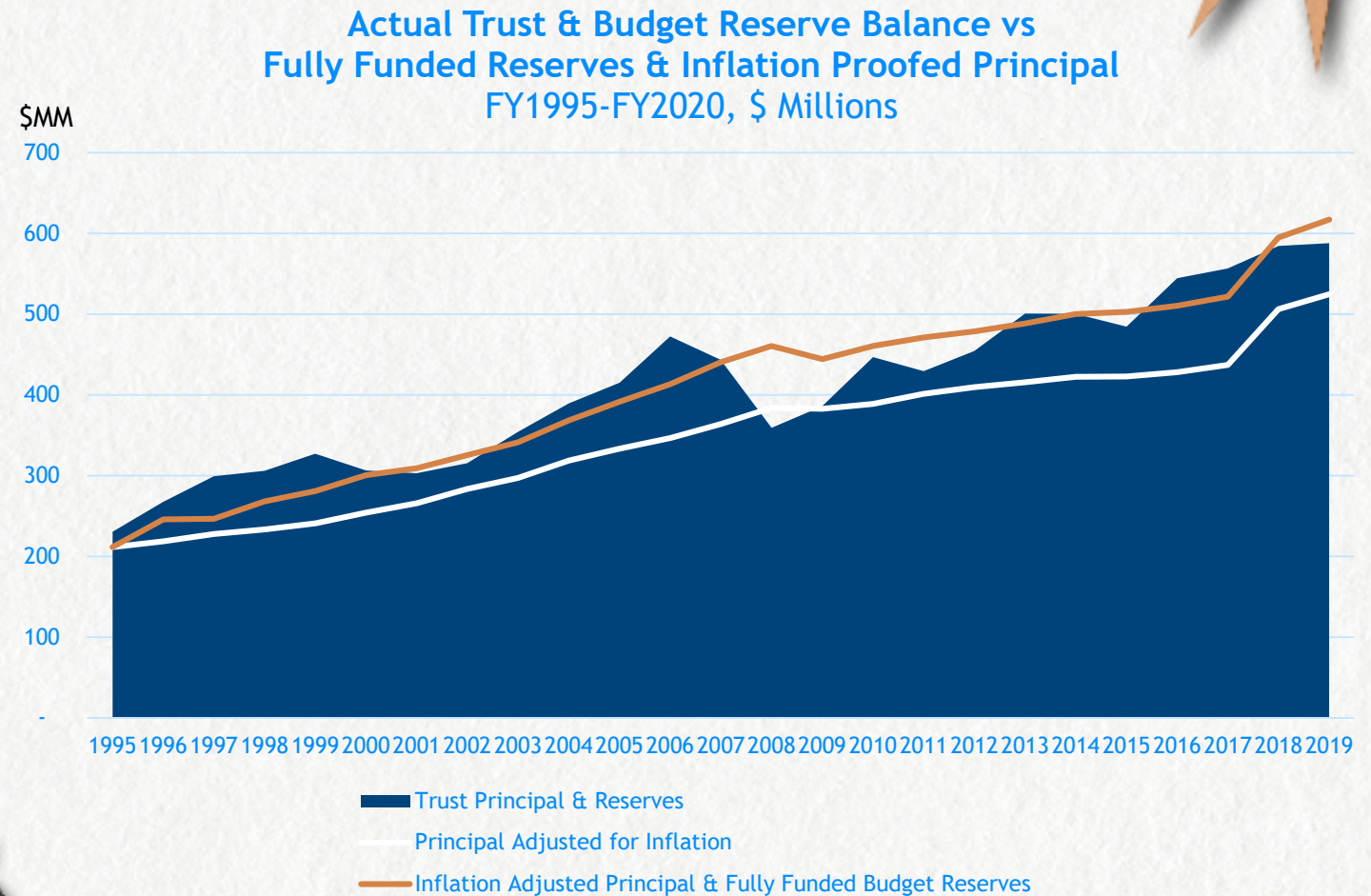


# Reserve Model Approach: Market Value vs. Inflation-Adjusted Value & Reserves



FY20 year-end principal and reserve balances reflect a \$34 MM shortfall

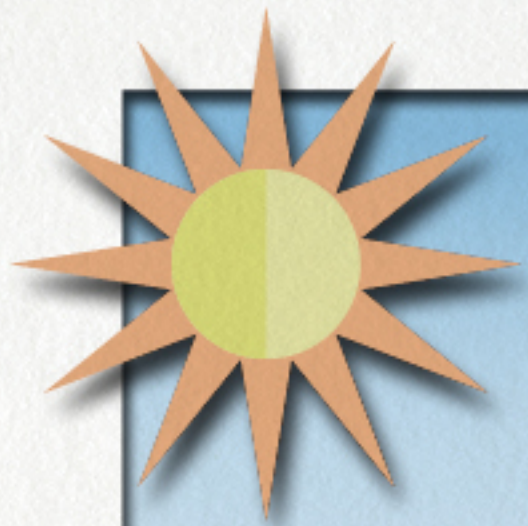
- Target Budget Reserves: \$96.6 MM
- Earnings shortfall: \$33.6 MM



# Recent Inflation Proofing Guidelines

Past Trustee practice, trust law, and Trust Statute and AMPS provide Trustee discretion

- Timing: “may” when Budget Reserves exceed 400% of the spending target
- Method: Inflation factor is CPI-All Urban Consumers (CPI-U)
- Amount: Partial or full inflation proofing
- Funds: Both Budget Reserves (reserve model) and Trust principal account (designated transfers to principal)



# DISCUSSION



Trust  
Alaska Mental Health  
Trust Authority

## MEMO

**To:** Anita Halterman, Finance Committee Chair  
**Through:** Mike Abbott, Chief Executive Officer  
**From:** Carol Howarth, Chief Financial Officer  
**Date:** December 21, 2020  
**Re:** Annual payout transfer  
**Fiscal Year:** 2021

### REQUESTED MOTION:

*The Finance Committee recommends that the full board of trustees authorize the transfer of \$24,157,100 from the Alaska Permanent Fund Corporation Budget Reserve account to the Mental Health Settlement Income Account to finance the FY 2021 base disbursement payout calculation. The CFO may fulfill this motion with one lump sum or multiple transfers.*

### BACKGROUND

The Asset Management Policy Statement outlines a spending policy for determining the Trust's annual available funding. A major component of available funding is the payout from the budget reserves managed by the Alaska Permanent Fund Corporation (APFC). The annual payout calculation consists of 4.25% of the rolling four-year average aggregate net asset value (NAV) of principal and budget reserve investment balances held the APFC and the Department of Revenue.

The calculation for the FY21 payout and drawdown from APFC budget reserves is as follows:

	<i>FY Ending NAV</i>
FY 2017	\$544,685,656
FY 2018	556,593,100
FY 2019	584,419,083
FY2020	587,908,308
Average NAV:	\$ 568,401,522
	<u>x 4.25%</u>
Payout disbursement calculation ( <i>rounded</i> ):	\$24,157,100

This requested payout is \$1,100,500 greater than in FY2020.

## MEMO

**To:** Anita Halterman, Finance Committee Chair  
**Through:** Mike Abbott, Chief Executive Officer  
**From:** Carol Howarth, Chief Financial Officer  
**Date:** December 21, 2020  
**Re:** Commercial Real Estate Refinancing Costs Approval  
**Fiscal Year:** 2021

### REQUESTED MOTION:

*The Finance Committee recommends that the full board of trustees authorize the expenditure of \$295,000 from the Central Facility Fund for the second year renewal of the RFP20-013M Real Estate Advisor contract.*

### BACKGROUND

Per the Asset Management Policy Statement regarding Non-Liquid Asset Managers, a Third Party Real Estate Advisor monitors the real estate investment assets managed by the TLO. This advisor “assists with the oversight and monitoring of real estate investment assets acquired by the Trust for income generating purposes. The advisor is managed by the CFO and provides an annual report to the trustees on the status of these real estate assets.”

This fixed price contract was awarded to Harvest Capital Partners LLC (Harvest) with three (3) 1-year renewals. The first-year contract was for \$380,000. During consideration of this function last year, the Trustees directed staff to seek a less expensive agreement in year 2. This second renewal has been negotiated for \$295,000. The contract scope has been reduced as the TLO assumes from Harvest direct responsibility for budget preparation and business plan development, while Harvest continues to provide strategic advice and review. Additionally, the TLO assumes responsibility for a portfolio summary, while Harvest continues to provide strategic direction, advice and review. Harvest retains full responsibility for internal valuation, hold/sell analysis, and risk assessment. It reviews assets, and presents to the Trustees its recommendations for the commercial real estate business plan.

The funding source for this contract is the Central Facility Fund (CFF). The balance of the CFF as of 11/30/2020 was \$743,761, and there are sufficient funds to cover this contract. The source of the CFF funding is contributions from the properties accumulated over time, and AMPS has a funding target for the CFF of \$2,000,000.

## MEMO

**To:** Anita Halterman, Finance Committee Chair  
**Through:** Mike Abbott, Chief Executive Officer  
**From:** Carol Howarth, Chief Financial Officer  
**Date:** December 22, 2020  
**Re:** No Surplus Declaration

### REQUESTED MOTION:

*The Finance Committee recommends that the full board of trustees determines that no Trust funds exist above the current and projected needs of the beneficiaries of the Alaska Mental Health Trust.*

The purpose of this memo is to present information to the Committee regarding the financial condition of the Trust, and to consider if there are surplus Trust assets not necessary to fulfill the obligations of the Trust.

### BACKGROUND: PROGRAMMATIC RESPONSIBILITIES

The Trust is responsible for ensuring an integrated comprehensive mental health program ("Comp Plan"). Prepared by the Department of Health & Social Services (DHSS) in conjunction with the Trust, this Comp Plan guides funding allocation decisions by the State of Alaska for the development of services, workforce and facilities to support. The Trust, with limited resources, plays the key roles of providing leadership in advocacy for and planning, implementing and funding of the Comp Plan; and acts as a catalyst for change.

The Trust annually submits to the Governor and Legislative Budget & Audit Committee a budget and plan of implementation. The budget includes recommended expenditures from the general funds to meet the expenses of the Comp Plan.

It is not the Trust's responsibility to fund, implement and sustain the services identified in the Comp Plan. That is the responsibility of DHSS. DHSS's comprehensive system of care must be implemented within the limits of appropriations and Trust funded grants and contracts.

The Trust has and will continue to deploy its limited resources (financial and staff) to ensure there is a sustained effort to implement, evaluate, revise and update the Comp Plan as needed over time.

Key statutes guiding the state's comprehensive mental health program and plan are AS 47.30.011(b), AS 47.30.046(a), AS 47.30.056 and AS 47.30.660.

## **BACKGROUND: ASSET MANAGEMENT**

### **Alaska Statute**

The Trust has a statutory obligation to consider the needs of both current and future beneficiaries. Key statutes guiding Trust management of cash assets are:

- AS 37.14.009 The authority has a fiduciary obligation to ensure that the assets of the Trust are managed consistent with the requirements of the Alaska Mental Health Enabling Act of 1956.
- AS 37.14.041 (a) and AS 47.30.056 Monies in the Trust's settlement income account may be used only for specified purposes: programmatic, administrative and offsetting the effects of inflation on the Trust Fund's principal.
- AS 37.14.039 If the authority determines that there is a surplus of money in the Trust's settlement income account above the amount sufficient to meet current and projected cash expenditure needs of the authority, the surplus shall be invested and income earned on investments may be retained by the authority for use as specified by statute.
- AS 37.14.041 (b) If money in the Trust's settlement income account is not needed to meet the necessary expenses of the state's integrated comprehensive mental health program, the authority shall transfer the money to the unrestricted general fund for expenditure through legislative appropriation for other public purposes.

### **Asset Management Policy Statement**

Trustees established policy in the Asset Management Policy Statement, revised August of 2019 (AMPS), to help trustees effectively supervise, monitor, and evaluate the investment and management of the Trust's liquid assets. The investment earnings from liquid assets will be used to protect and enhance the value of Trust assets and implement annual mental health program funding strategies. Key policies guiding Trust management of cash assets are:

- Preserve and enhance the purchasing power of the Trust's cash principal and income generating capacity of the Trust's non-liquid asset portfolio.
- Achieve a real rate of return (the inflation adjusted return) of five percent (5%) over a full market cycle with reasonable and prudent levels of risk.
- Provide a steady, reliable payout stream to ensure funding of program spending goals while maintaining sufficient liquidity in all market environments.

## **BACKGROUND: FINANCIAL PLANNING**

The Trust is a perpetual Trust and must (1) ensure that resources exist throughout the current and near-term fiscal years to meet unanticipated beneficiary needs, (2) ensure that adequate assets are available for future beneficiary needs, and (3) protect against value loss of its cash and non-cash assets.

### **Spending Policy**

The Trust's annual spending is supported primarily from an annual withdrawal of 4.25% of the four-year average of the Trust Fund and Budget Reserve balances. There are two primary determinants of sustainable spending: the real (inflation adjusted) return and the percent of market value (POMV) rate. The real return, currently targeted at 5%, must equal or exceed the

current authorized POMV spending rate, currently at 4.25%, to sustain the POMV rate, otherwise spending erodes the earnings reserve.

### **Budget Reserve Management**

Cash balances required to maintain spending policy have been set at 400% of the annual spending draw from the Trust Fund's earnings, which are accumulated in the Trust's Budget Reserve accounts managed by the Department of Revenue (DOR) and the Alaska Permanent Fund Corporation (APFC). The targets are further defined: 200% held in management by DOR and 200% held in management by APFC.

### **FINANCIAL ANALYSIS AS OF JUNE 30, 2020**

The Trust is financially sound. Cash invested by APFC (Principal and Budget Reserves) and DOR (Budget Reserves) totaled \$588 MM as of June 30, 2020, of which \$427 MM was restricted Trust principal and \$161MM was Budget Reserves. The information below summarizes Trust cash position and commitments related to Budget Reserves.

### **Account Balances: Sources & Uses**

#### **Sources of Funds: June 30, 2020 Budget Reserves**

APFC Managed Budget Reserves:	\$107,526,700
DOR Treasury Managed Budget Reserves:	\$53,028,500
Total Budget Reserves:	\$160,555,200
<i>Less Allocations:</i>	
Allocations for TLODA and Beneficiary Facilities:	(\$10,505,000)
Available Reserves:	\$150,050,200

#### **Uses of Funds: Commitments as of June 30, 2020:**

FY2021 Spending Payout	\$24,157,100
A cash reserve target of 400% of proposed FY21 Spending Payout to minimize the impact of market volatility:	\$96,628,400
Total:	\$120,785,500

**Net Available Budget Reserves as of June 30, 2020:** \$29,264,700

Cash in excess of these requirements may be used to offset the effect of inflation on the Trust's cash principal. To fully inflation proof the \$200 MM contributed to the Trust corpus in FY1995 and subsequent principal contributions through FY2020, \$108 MM<sup>1</sup> is required when evaluating purchasing power using traditional inflation proofing methods, and \$34 MM<sup>2</sup> when using a more flexible reserve model. Adding inflation proofing requirements to operating and capital

<sup>1</sup> This amount is calculated using the method defined by statute for inflation proofing the Alaska Permanent Fund: calendar year-end inflation rate (CPI-U) applied to the fiscal year end principal balance.

<sup>2</sup> This amount is calculated combining principal and budget reserves, and requires the funds' real rate of return exceeds the spending rate.

commitments and allocations, the total the total required Budget Reserves ranges from \$155 MM to \$229MM. This is a shortfall in Budget Reserves of between \$(5 MM) and \$(79 MM) for the two respective methods of calculating inflation proofing requirements.

## **CONCLUSION**

The Trust must ensure it has sufficient resources in perpetuity to meet the needs of beneficiaries as described in the Comp Plan.

The Trust does not have assets above what is necessary to meet the current and projected needs of beneficiaries therefore no funds are available for transfer from Trustee administration to the general fund.

## MEMO

**To:** Anita Halterman, Finance Committee Chair  
**Through:** Mike Abbott, Chief Executive Officer  
**From:** Carol Howarth, Chief Financial Officer  
**Date:** December 22, 2020  
**Re:** Commercial Real Estate Refinancing Costs Approval  
**Fiscal Year:** 2021

### REQUESTED MOTION:

*The Finance Committee recommends that the full board of trustees authorize the incorporation into the principal loan balance(s) of commercial real estate refinancing(s) the costs required to complete the refinancing transaction(s): these include costs related to financial and legal review, closing and due diligence, commercial brokerage fees, prepayment fees, legal fees related to portfolio creation, and any other usual and customary mortgage costs.*

### BACKGROUND

At the November 2020 Board Meeting, Trustees approved a motion “authorizing the CFO to refinance as much of the current commercial real estate (CRE) debt as is prudent in order to reduce debt service requirements and maintain flexibility to allow for future property sales. The CFO may use interest-only debt that allows the Trust to pay down the loan.”

The motion of November 2020 approved the refinancing, but did not request approval of expenditures necessary to successfully execute the refinancing. The financial analysis presented to the Trustees at the September 2020 Finance Committee meeting incorporated costs that would be authorized by this action. Harvest Capital provided a cost estimate of \$4.127 MM for a \$45.050 MM refinancing. Of the total estimate, \$3.434MM is attributable to pre-payment fees on four properties and \$0.693MM to related closing costs and fees.

The amount of refinancing expenses has been estimated conservatively to provide sufficient flexibility for the Trust to achieve the most savings possible. At this point in time, it is unknown exactly what interest rates or terms can be secured so it is unknown if all assets will ultimately be refinanced. Trustees’ authorization to refinance is conditioned upon financial prudence. The total amount refinanced, including fees, must represent a favorable cash flow benefit as compared to the existing debt structures.