

MEETING AGENDA

Meeting: Finance Committee
Date: April 22, 2021
Time: 9:00 AM
Location: online via webinar and teleconference
Teleconference: (844) 740-1264 / Meeting Number: 133 514 7176 # / Attendee Number: #
<https://alaskamentalhealthtrust.org/>
Trustees: Anita Halterman (Chair), Verné Boerner, Rhonda Boyles, Chris Cooke, Brent Fischer, Annette Gwalthney-Jones, John Sturgeon

Thursday, April 22, 2021

Page No.

9:00 am	<u>Call Meeting to Order (Anita Halterman, Chair)</u> Roll Call Announcements Approve Agenda Ethics Disclosure Approve Minutes <ul style="list-style-type: none"> January 7, 2021 	4
9:05	<u>Staff Report Items</u> FY2021 Budget Update – Mike Abbott, CEO FY2021 Q3 Financial Dashboard – Carol Howarth, CFO	hand-out
9:40	<u>Commercial Real Estate Update</u> Commercial Real Estate Refinancing Update – Carol Howarth, CFO Central Facility Fund Update - Marisol Miller, Real Estate Asset Manager, TLO Commercial Real Estate Market Update – David MacDonald, Senior Real Estate Manager	hand-out 12 hand-out
	Break	
10:25	<u>Approval</u> FY21 Real Estate and Program-Related Real Estate Facility Budgets <ul style="list-style-type: none"> Jusdi Doucet, Deputy Director David MacDonald, Senior Real Estate Asset Manager Marisol Miller, Real Estate Asset Manager, TLO Carol Howarth, CFO 	17
11:30	Adjourn	

Future Meeting Dates

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

(Updated – April 2021)

- | | | |
|--|----------------------------|------------------------|
| • Program & Planning Committee | April 21, 2021 | (Wed) |
| • Finance Committee | April 22, 2021 | (Thu) |
| • Resource Mgt Committee | April 22, 2021 | (Thu) |
| • Full Board of Trustee | May 26, 2021 | (Wed) – TBD |
| | | |
| • Program & Planning Committee | July 27-28, 2021 | (Tue, Wed) |
| • Audit & Risk Committee | July 29, 2021 | (Thu) |
| • Resource Mgt Committee | July 29, 2021 | (Thu) |
| • Finance Committee | July 29, 2021 | (Thu) |
| • Full Board of Trustee | August 25-26, 2021 | (Wed, Thu) – Anchorage |
| | | |
| • Audit & Risk Committee (tentative) | October 20, 2021 | (Wed) |
| • Finance Committee (tentative) | October 20, 2021 | (Wed) |
| • Resource Mgt Committee (tentative) | October 20, 2021 | (Wed) |
| • Program & Planning Committee (tentative) | October 21, 2021 | (Thu) |
| • Full Board of Trustee | November 17-18, 2021 | (Wed, Thu) – Anchorage |
| | | |
| • Audit & Risk Committee | January 5, 2022 | (Wed) |
| • Finance Committee | January 5, 2022 | (Wed) |
| • Resource Mgt Committee | January 5, 2022 | (Wed) |
| • Program & Planning Committee | January 6, 2022 | (Thu) |
| • Full Board of Trustee | January 26-27, 2022 | (Wed, Thu) – Juneau |

Future Meeting Dates

Statutory Advisory Boards

(Updated – April 2021)

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

AMHB: <http://dhss.alaska.gov/amhb/Pages/default.aspx>

ABADA: <http://dhss.alaska.gov/abada/Pages/default.aspx>

Executive Director: Bev Schoonover, (907) 465-5114, bev.schoonover@alaska.gov

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

Governor’s Council on Disabilities and Special Education

GCDSE: <http://dhss.alaska.gov/gcdse/Pages/default.aspx>

Executive Director: Kristin Vandagriff, (907) 269-8999, kristin.vandagriff@alaska.gov

- May 13-14, 2021 – via zoom

Alaska Commission on Aging

ACO: <http://dhss.alaska.gov/acoa/Pages/default.aspx>

Executive Director: Lisa Morley, (907) 465-4879, lisa.morley@alaska.gov

- May 4-6, 2021 – Kenai TBD and via zoom

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

January 7, 2021

8:30 a.m.

WebEx Videoconference/Teleconference

Originating at:

3745 Community Park Loop, Suite 120

Anchorage, Alaska

Trustees Present:

Anita Halterman, Chair

Rhonda Boyles

John Sturgeon

Ken McCarty

Chris Cooke

Annette Gwalthney-Jones

Verne' Boerner

Trust Staff Present:

Mike Abbott

Steve Williams

Carol Howarth

Miri Smith-Coolidge

Kelda Barstad

Luke Lind

Michael Baldwin

Katie Baldwin-Johnson

Jimael Johnson

Valette Keller

Allison Biastock

Kat Roch

Trust Land Office:

Wyn Menefee

Sarah Morrison

Jusdi Doucet

David MacDonald

Katie Vachris

Hollie Chalup

Also participating:

Angela Rodell, Steven Sikes; Zachary Hanna; Beverly Schoonover; Kristin Vandagriff; Becky Carpenter; Sheila Harris.

PROCEEDINGS

CALL TO ORDER

CHAIR HALTERMAN called the meeting to order and called the roll. Waiting on Trustee Sturgeon, she then asked for any announcements. There being none, she moved to the approval of the agenda.

TRUSTEE McCARTY stated that he had an ethical question about his understanding from the AG consultant that the board has to meet like we do. His concern was about deferring questions to the Chair and to the CEO to be disseminated at a later time. He believed that violated rules of what the AG advised because it made a kind of back-door meeting about the information, dialogue and decisions.

CHAIR HALTERMAN asked Mr. Abbott for any comments on Trustee McCarty's observations.

MR. ABBOTT replied that there is no prohibition on using e-mail to ask questions and receive information from staff or others. He stated that as long as the information is shared with all of the trustees and is available should there be a records request or some other form of public information request, then it is allowable. He continued that what is not allowable is active deliberations between more than three trustees at a time outside of a public meeting that has been properly noticed. But simply sharing questions and receiving information back does not constitute prohibited activity. He stated that the possibility of convening a special board meeting to include Stuart to discuss matters related to the Governor's proposed budget was discussed. He added that he would be happy to seek guidance related to the concerns that Trustee McCarty expressed, if that is the will of the group. He continued that Stuart could provide potentially written advice. He asked Trustee McCarty to send a note describing the specific request and concern he had, and we will work to get something which then could be shared with the trustees.

CHAIR HALTERMAN moved to the approval of the agenda.

APPROVAL OF AGENDA

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

ETHICS DISCLOSURES

CHAIR HALTERMAN stated that the agenda was approved and asked for any ethics disclosures. Hearing none, she moved to the approval of the minutes.

APPROVAL OF MINUTES

MOTION: A motion to approve the October 21, 2020, minutes was made by TRUSTEE COOKE; seconded by TRUSTEE GWALTHNEY-JONES.

MR. ABBOTT stated that both the agenda and the minutes needed to be voted on.

CHAIR HALTERMAN called a roll-call vote for the approval of the agenda.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Gwaltney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, not present; Trustee Halterman, yes.)

CHAIR HALTERMAN called a roll-call vote for approval of the minutes.

After a roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Gwaltney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, not present; Trustee Halterman, yes)

STATUTORY UPDATE

CHAIR HALTERMAN asked Mr. Abbott to introduce the speaker for the statutory update.

MR. ABBOTT stated that at least once a year there is an opportunity to hear from the agencies that help manage the Trust's invested assets. That is an expectation that is built into the Asset Management Policy Statement and into the agreement with both the Permanent Fund and the Department of Revenue. He continued that he was pleased and honored to introduce Angela Rodell, the chief executive officer of the Alaska Permanent Fund Corporation. He added that Ms. Rodell and the team at the Permanent Fund Corporation are not just investment managers, but also great partners.

MS. RODELL thanked Mr. Abbott and the members of the committee and stated her pleasure in being there virtually. She continued that there is a lot going on both within the state and throughout the country, and she looked forward to answering a lot of questions about the markets, investment opportunities, and Alaska in general. She began with the asset allocation and stated the importance of how it changed over time. She gave a short history of asset management when the Permanent Fund Corporation was created and how it changed over time, explaining how the asset classes grew. She stated that in 2021 there are eight asset classes with the largest being public equities or stocks. 39 percent of the assets are intended to be invested in those stocks, and 21 percent are in fixed income bonds, comprising the highly liquid, public market aspect of the asset allocation. In addition, there is 7 percent allocated to real estate; 15 percent to private equity; and 9 percent to private income, which is directed at infrastructure type of investments. There is also a small allocation to cash, given market volatility. She explained that private income is the debt instruments that were entered into on a private-market basis between various groups. She moved to understanding the allocation versus the returns to those allocations, which she explained in detail and then talked about diversification from different asset classes and from global diversification. She added that global diversification contributes both from a return and a risk perspective in benefiting the fund growth going forward. She looked at how the fund values and returns have correlated over time and explained how the fund managed to grow. She continued her presentation, explaining the fund performance and answering questions as she went along. She stated her pride in what has been achieved at the corporation and added that they are a really diverse entity with a really diverse board that has generated really good returns for Alaskans. She added that there is a tremendous amount of information on the corporation's website about the investments and their performance and how those things are done.

CHAIR HALTERMAN thanked Ms. Rodell and stated appreciation for her presentation. She asked Carol Howarth to introduce the next speakers with the Department of Revenue for the

Treasury update.

TREASURY UPDATE

MS. HOWARTH introduced Zachary Hanna and Steve Sikes with the Department of Revenue Treasury. Mr. Hanna was promoted to the chief investment officer this past fall and was deputy investment officer for over three years. He has been with Treasury for almost 20 years. He earlier managed private equity. She stated that Steven Sikes was the investment officer over at DOR which plays an important role for the Trust in managing the cash assets, as well as the budget reserves.

MR. SIKES began with some more of his background, stating that with Mr. Hanna being named the new CIO, he was asked to become more involved with the Alaska Mental Health Trust portfolio. He continued that they look forward to helping the Trust with its asset allocations and the financial policymaking going forward. He added that his goal was to provide an overview and background of the Treasury division; provide a portfolio overview and performance review; talk about the process in setting asset allocation, and provide some insight into the upcoming annual process that is being undertaken now. He explained that the Treasury division includes all the primary functions in estate finance organizations, including cash management, compliance, accounting, operations, and portfolio management. He stated that investments are managed directly by the portfolio management section, which is made up of 15 investment professionals located in Juneau, Alaska. He added that while many of the functions are similar, it is a separate organization from the Alaska Permanent Fund Corporation. He continued that most of the funds are under the fiduciary responsibility of the Alaska Retirement Management Board, with experts across all major asset classes. There are also experts that manage several fixed income and equity portfolios internally. He then moved into the Alaska Mental Health Trust portfolio and stated that the pieces managed are the short-term piece and the medium-term piece. There are three accounts managed as part of the GeFONSI pool. GeFONSI stands for the General Fund and Other Segregated Investments. This pool holds accounts that require a minimal exposure to principal loss and is always to maximize current income with moderate risk tolerance. The second portfolio is the Alaska Mental Health Trust reserve account; the larger of the funds. This asset allocation is designed around a medium-term time horizon reflecting funds that may be needed over a five- or seven-year time period. He continued that these funds are to balance the goals or preservation of capital and asset growth. He moved to performance and reviewed the assets invested in GeFONSI. He then continued to the budget reserve portfolio which is invested more aggressively with a medium-term horizon. The asset allocation of this portfolio is established by the Alaska Mental Health Trust Board and implemented by the Treasury division. The Trust has been compensated for taking more risk over the trailing 10-year period; and the account fared well through the pandemic, earning a 13 percent return over the trailing one-year period. He then explained a graphical representation of the growth of the account since inception. He went over the challenging times for investors because return expectations are declining. He stated that the Commissioner of Revenue established an independent advisory committee to review and provide some independent feedback on decisions and approaches. This committee will meet regularly with the Commissioner and CIO to review State investments. He continued his presentation and explained as he went along. He stated that Treasury staff looks forward to assisting the Alaska Mental Health Trust Authority in its work in managing its asset allocations. Diversification, cost and asset allocation will be keys to success going forward. He concluded his prepared remarks and moved to the questions.

MR. HANNA filled in answering questions after Mr. Sikes developed technical difficulties. He explained that the assumptions were used last year to come up with the asset allocation used for the Alaska Mental Health Trust and for other funds that are managed for the State. He continued that the expectation is those would come down materially looking forward as the process is gone through this year. He explained in greater depth and detail.

CHAIR HALTERMAN asked for any other questions. There being none, she asked Mr. Abbott if he had anything before the break. She also stated, for the record, that Trustee Sturgeon had joined the meeting.

MR. ABBOTT stated that, unless he is contacted by a trustee with new information, a meeting would be noticed for next Thursday at 2 p.m.

CHAIR HALTERMAN called a break.

(Break.)

CHAIR HALTERMAN called the meeting back to order and began with a roll call. She moved to the staff report items, the financial dashboards, and inflation-proofing conversation. She recognized Carol Howarth.

FINANCIAL DASHBOARD

MS. HOWARTH began with the November dashboard, noting that the December financials would not be available until later in the month. She thanked Katie Vachris, Kat Roch, Valette Keller, the folks at the Department of Revenue and Jackie Mallinger from the Permanent Fund Corporation for their contributions to this quarterly report. She went through the Trust expenditures, then the revenue, and then the asset base in her presentation, explaining as she went along

MR. ABBOTT stated that the discussion highlighted that three different policies or components were contemplated in the development of the Asset Management Policy Statement and strategy being used. The first is the 4.25 percent; second is the 400-percent reserve target; and the third is inflation-proofing. He clarified that shifting money between reserves and the Trust Fund would not affect the payout which is currently 4.25 percent of the combined reserves and Trust Fund.

INFLATION PROOFING

MS. HOWARTH reminded the trustees that a year ago we were discussing inflation-proofing, and it was on the April Finance Committee agenda. In March there was a market downturn, and we were below the 400 percent target; so the issue was moot and set aside. She framed the discussion by first reviewing the Trust statute and policy; then seeing how inflation-proofing could be managed; looked at inflation-proofing activities to date; the trustee guidelines; looked at the actual inflation-proofing needs we have; and wrapped up with the requirements and discretion before moving into a discussion about inflation-proofing. The discussion continued.

MR. ABBOTT suggested either continuing this conversation at a subsequent Finance Committee meeting, or a special meeting, or the next meeting in April. He stated that there are four action items on the committee agenda that the trustees need to address.

CHAIR HALTERMAN stated that she would be interested in moving this discussion to a special meeting because there are votes to take up in April.

MR. ABBOTT recommended that he and Ms. Howarth talk with the Chair after the meeting and work on a plan for a special meeting and the materials necessary to support that.

CHAIR HALTERMAN agreed, and stated the conversation over inflation-proofing will continue at the next meeting.

MR. ABBOTT clarified that there was no motion proposed on inflation-proofing at this time.

CHAIR HALTERMAN moved to the approval of the motions on the agenda.

MOTION: A motion that 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 FY21 base disbursement payout calculation, and that the CFO may fulfill this motion with one lump sum or multiple transfers was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

TRUSTEE McCARTY asked about the need to transfer funds.

MR. ABBOTT explained that this transfers money from the reserves to the operating account to help pay for the FY21 operations, grant-making, and administrative functions. He continued that this is taking the 4.25 percent out and spending it as it was done every year.

CHAIR HALTERMAN stated that this does not prohibit coming back with a new motion at some point to transfer additional funds for a program if needed.

TRUSTEE COOKE explained that this is the annual draw from the Permanent Fund to fund the operations and programs.

CHAIR HALTERMAN called the question and called the roll.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Gwalhthney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, yes; Trustee Halterman, yes.)

CHAIR HALTERMAN moved to the next motion.

MOTION: A motion that 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 adviser contract was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

MR. ABBOTT explained that every year the trustees approve a budget for the Central Facility Fund, which is used to cover expenses associated with the commercial real estate investments. He stated that when the FY21 budget for the Central Facility Fund was approved, the costs of the Alaska Mental Health Trust Authority

real estate consultant were intentionally not included because there was an expectation of renegotiating the price of that contract. He added that, at that time, the trustees were told that staff would come back and bring forward a request like this to fund that contract. He stated that this is for the Harvest Capital Partners contract, the real estate consultant that was hired a little more than a year ago. The original contract was \$380,000 per year. Ms. Howarth and the TLO were able to secure a contract with Harvest for Year 2 that is approximately 20 percent less expensive. The funding for that contract is the motion before the trustees.

CHAIR HALTERMAN called the question with a roll call.

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

CHAIR HALTERMAN moved to the next motion.

MOTION: A motion that the Finance Committee recommends that the Full Board of Trustees determine that no Trust funds exist above the current and projected needs of the beneficiaries of the Alaska Mental Health Trust was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

MR. ABBOTT explained that this motion is similar to a motion made last year, endorsed by the Full Board at the end of the month, that addresses the issue related to a trustee determination of a surplus. The settlement specifically provides that if the Trust accumulates assets that are in excess of what is necessary to meet the needs of beneficiaries, that those funds would be transferred to the Alaska General Fund. He continued that this was an opportunity for the trustees to determine that no such surplus exists. Later in the memo it describes the expectations for beneficiary requirements that lead to that conclusion.

CHAIR HALTERMAN stated that the purpose of this memo is to stress what statutorily is allowed. She continued that this in no way binds any actions of the Board any further and will not restrict in any way. It puts the Legislature and the Administration on notice that no surplus funds were received and do not exist within the budget.

A discussion ensued.

MR. ABBOTT suggested tabling the motion at this time. There is an executive session currently scheduled for next week, and it can be brought back for the Full Board to consider in late January. There is no ultimate requirement that this have a Finance Committee recommendation.

MOTION: A motion to table the requested motion was made by TRUSTEE BOYLES; seconded by TRUSTEE GWALTHNEY-JONES.

CHAIR HALTERMAN explained that the motion before the board is being tabled; therefore, no action needs to be done on the original motion. She called the question.

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

CHAIR HALTERMAN moved to the final motion.

MOTION: A motion that the Finance Committee recommend that the Full Board of Trustees authorize the incorporation into the principal loan balances of commercial real estate, refinancing the costs required to complete the refinancing transactions. These include costs related to financial and legal review, closing and due diligence, commercial brokerage fees, prepayment fees, legal fees related to the portfolio creation, and any other usual and customary mortgage costs was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

MR. ABBOTT apologized and stated this motion will address something that was inadvertently omitted from the authorization to refinance the commercial real estate debt that the trustees acted on a couple of months ago. At that time, an allowance should have been made for the refinancing, in addition to the principal amounts of the debt and the other costs related to it. That is the typical approach in refinancing and is the one recommended here. He clarified that the models were presented for the costs of refinancing and included those costs in the examples. Explicit authority to include the costs in the refinancing was not done. He added that, in order to complete the process, clear authorization from the trustees that these additional fees and costs can be covered with the refinancing is needed. He went through the transactional expense in more detail.

A discussion ensued.

CHAIR HALTERMAN called the vote.

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

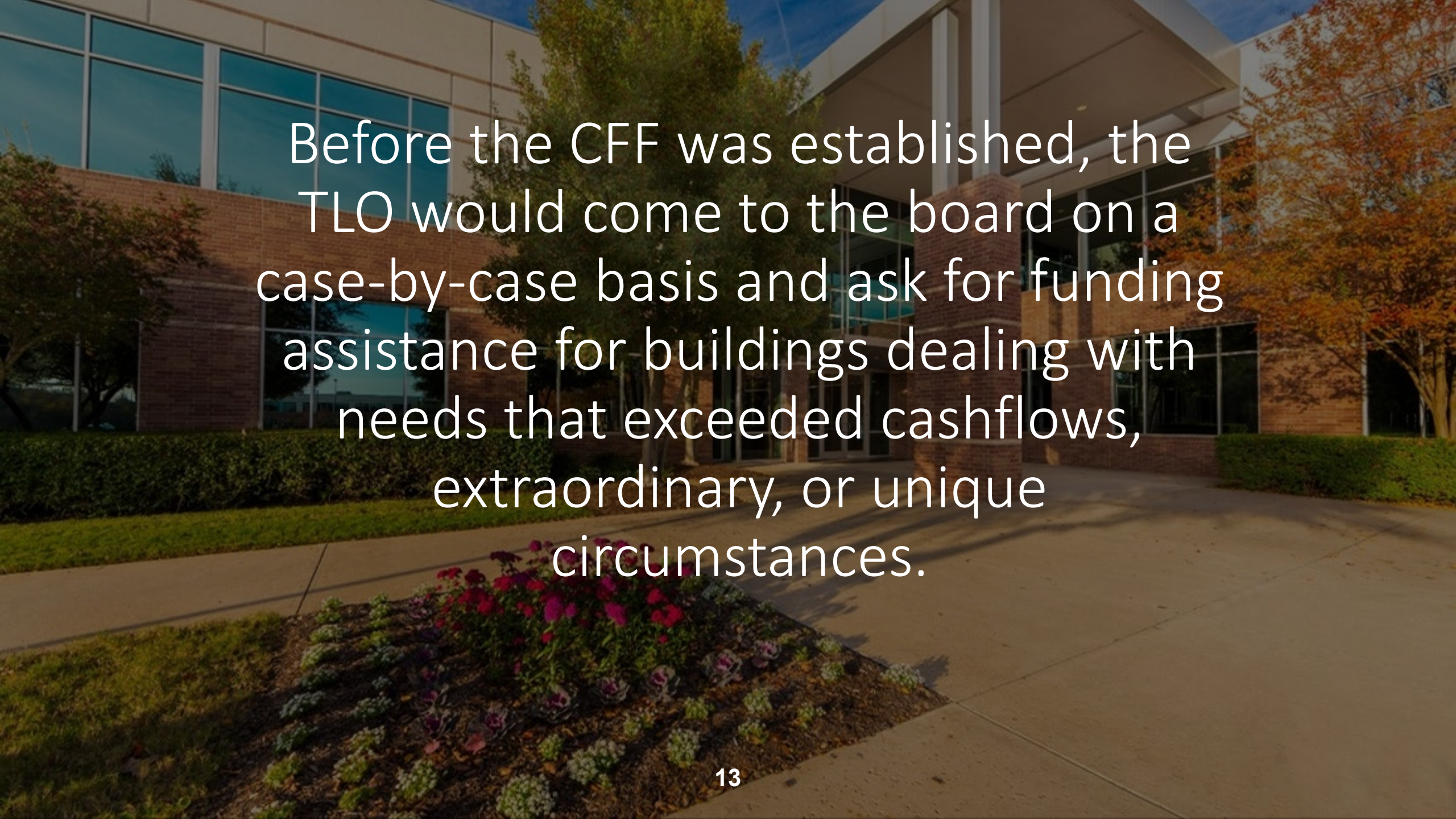
MOTION: A motion to adjourn the meeting was made by TRUSTEE COOKE; seconded by TRUSTEE BOYLES.

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

(Finance Committee meeting adjourned at 12:32 p.m.)



Central Facility Fund (CFF)

A photograph of a modern building with large glass windows and brick walls. The building is surrounded by trees and a sidewalk. The text is overlaid on the image.

Before the CFF was established, the TLO would come to the board on a case-by-case basis and ask for funding assistance for buildings dealing with needs that exceeded cashflows, extraordinary, or unique circumstances.

To: Board of Trustees
Through: Mike Abbott, Chief Executive Officer
From: Andrew Stemp, Chief Financial Officer
Date: May 14, 2018
Re: Reactivation of Central Facility Fund

REQUESTED MOTION:

The trustees authorize the use of Fund 3322 to create a central facility fund to meet expenses that exceed the amount of funds held at the property level. The CFO is directed to consult with the Executive Director of the Land Office each quarter and transfer money from rental income into the central facility fund, in an amount mutually agreed upon, until the fund reaches a total balance of \$2.0 million.

BACKGROUND:

The Trust has two distinct property portfolios: the program related real estate and the commercial real estate. Both portfolios generate income and have corresponding expenses, including the need for periodic upgrades and major maintenance. The Trust has been able to address these needs on an ad hoc basis using a combination of income from the properties, some savings/reserves that are held for certain properties, and by accessing other Trust funds. This approach has worked for small to moderate sized needs but paying for large needs (i.e. tenant improvements) has the potential to create an uncomfortable level of cash flow compression.

To help mitigate the risk of cash flow compression, staff have been investigating the potential use of a central facility fund to accumulate cash over time and stabilize any need for resources. The Trust historically used fund 3322 (Deferred Maintenance) as a tool to address these types of needs. The account could be reactivated and a schedule of regular deposits into the account could be established to build up the fund.

RECOMMENDATION:

Based on research into industry practices, the staff have started developing a schedule of large projects that will need funding over the next three years. These projects range from replacing the water line at the Trust Authority Building (\$130,000) to major tenant improvements at the IRS facility (\$1+ million). Using this schedule as a roadmap, the Trust would set aside a portion of each month's rent to build up the central facility fund. When needed the Trust Land office would request authorization to use the fund to complete projects.

Staff recommend starting the fund with an initial contribution of \$105,000 (the current balance of the old account) and then contributing between \$50,000 and \$150,000 per quarter into the account. Contributions would continue until the account reaches a \$2.0 million balance. At that point, the contributions would be suspended until money is drawn down from the account; at that point contributions would resume until the account is replenished.

A key consideration of this approach is that the contribution to the facility fund would take place prior to distributing income for use by Trust programs, so there is a short-term reduction in available resources. This is mitigated by the benefit of having a stable and predictable source of funding for facility needs and avoids any out of budget cycle surprises that might negatively impact programs.

On May 14, 2018, the Board of Trustees approved the Reactivation of the Central Facility fund

The CFF was created as a centralized account, where funds from all properties could be collected in anticipation of future need.

- The intent was to cover both anticipated and unanticipated costs that exceed property cash flows.
- Although not originally anticipated, Harvest contract cost billed to CFF.
- Original motion put a target balance of \$2M.

Historical Board Approvals:

- April 2018- Board Approval for Cordova RTU replacement \$145,000**
- April 2018- Board Approval for Trust Authority Building RTU/Boiler/Pneumatic Controls \$475,000**
- April 2020- Board Approval for Operating Funds for the TAB- \$53,012
- October 2019- Board Approval for Harvest Contract- \$380,000*
- January 2021- Board Approval for Harvest Contract- \$295,000*

These funds have not yet been expended and do not lapse.

The Harvest contract is billed on a monthly basis to the CFF





	FY21 Actual	NOTES
CFF Starting Balance	\$923,460	as of 7/1/2020
Approved/Expended Activity	(\$53,012)	Distribution to TAB -Operating
Approved CapX	(\$620,000)	
Harvest Contract	(\$344,583)	
CFF Funding	<u>\$600,000</u>	FY21 Target Contributions
CFF Ending Balance	\$505,865	
	FY22 Plan	NOTES
CFF Starting Balance	\$505,865	as of 7/1/2020
Proposed Bldg. Contributions	(\$269,422)	TAB - \$22,500 Amber Oaks - \$246,942
Anticipated CapEx	\$0	
Harvest Contract	(\$295,000)	
CFF Funding	<u>\$600,000</u>	FY21 Target Contributions
CFF Ending Balance	\$541,443	



To: Anita Halterman, Chair
Finance Committee
From: Marisol Miller
Date: 4/21/2021
Re: FY22 Real Estate & Program-Related Real Estate Facility
Budgets
Fiscal Year: 2022
Amount: \$12,256,035

Approval

Proposed RMC Motion:

Proposed Motion One: “The Finance Committee recommends that the Alaska Mental Health Trust Authority board of trustees approve the incremental building expenditures, totaling \$12,256,035 budgeted for the fiscal year 2022 to be paid by the property manager from rents and other income collected from the properties.”

Proposed Motion Two: “The Finance Committee recommends that the Trust Authority board of trustees approve funding and instruct the CFO to transfer up to \$269,442 to the third-party property manager, as requested by the TLO, for operating expenses and capital expenses to the Non-Investment/Program Related Real Estate and REMP Real Estate properties from the Central Facility Fund for the fiscal year 2022, which appropriation shall not lapse.”

Proposed Motion Three: “The Finance Committee recommends that the full board of trustees authorize spending \$173,083.33 from the Central Facility Fund for the November 2021 through June 2022 portion of Real Estate Advisor’s contract.”

Background:

Introduction:

Each year the TLO presents the budget for managing the commercial and program related real estate properties. These are based on the TLO’s projections for occupancy and the related capital and operating expenses for each property in FY22. If approved, this budget allows the TLO to manage these properties within the constraints of the approved budget but with flexibility to manage cash flows and obligations to maintain the facilities in good working order, attractive to tenants, and for appropriate revenue production. In each property throughout the year, cash reserves and distributions are determined based on projected needs. In addition to this budget approval, the

board has previously approved additional funding from the Central Facility Fund for specific operating or capital improvements that could not be covered by property cash flows. If changing conditions require spending not authorized in this proposed budget, the Trust will come back to the Trustees with a recommendation to amend the budget.

This year particularly some of the gross receipts and debt service could have a substantial variance depending on the outcome of the refinance and leasing efforts. Two Texas properties, Amber Oaks and North Park, have significant current vacancies. The proposed budget anticipates the use of building reserves, accumulated for each property in prior years for this type of situation, to augment the revenues for those two buildings. Additionally, Amber Oaks also requires funds from the Central Facility Fund to balance its revenues and expenses. Both are expected to have new tenants and be fully leased in FY22. Depending on the amount of space leased, timing, and terms, the revenues may be greater for North Park and Amber Oaks than the projections in the proposed budget. The proposed budget includes operating and capital expenses for those properties that include significant one-time expenses associated with recruiting new tenants as required by local market conditions. If revenues exceed expectations and/or expenses are less than expected, then the use of building reserves and CFF funds will be reduced.

Although we remain optimistic that we will complete a refinance of most of the debt associated with the portfolio, the benefits of that refinance are not included in the proposed budget. If successful, the refinancing will significantly reduce the debt service expense for several properties. If the refinance is accomplished, overall expenses will be significantly lower than are budgeted here and net revenue will be significantly higher.

If the portfolio refinance is unsuccessful, there is a \$6.3m balloon payment due for North Park in FY22. In that event, the staff will bring the Trustees a recommendation for addressing it at a later date.

FY22 Real Estate Budget from rent and other property income (Proposed Motion One)

Transaction/Resource: Budgets are presented to seek approval from the board of trustees for the expenditures necessary to service the properties. The proposed property expenditures are funded by tenant rents and other income collected from the properties.

Property Description/Acreage/MH Parcel(s): Real Estate Management Plan and Non-Investment Program Related Properties are as follows:

Real Estate Management Plan
1111 Israel Road; Tumwater, WA
1973 North Rulon; Ogden, UT
2600 Cordova Street; Anchorage, AK
2618 Commercial Drive; Anchorage AK
2420 & 2500 Ridgpoint Drive; Austin, TX
17319 San Pedro Avenue; San Antonio, TX
9601 Amberglen Blvd; Austin, TX

Non-Investment-Program Related Properties
3745 Community Park Loop Road; Anchorage, AK
650 Yonker Court; Fairbanks, AK
2330 Nichols Street; Anchorage, AK
1300 Moore Street; Fairbanks, AK
1423 Peger Road; Fairbanks, AK

General Background: We have established a system to adequately plan, manage, audit and report activity in the real estate portfolio. Asset Managers oversee and direct professional management services, the property information is accounted for by:

- 1) matching income to expenses;
- 2) comprehensive reporting and budgeting for each property; and
- 3) capital expense forecasting.

Anticipated gross revenues from property rents for FY22 is \$13.9 million. This projection accounts for known revenue sources with current occupancy levels, expected expiration of leases, and conservative filling of vacancies. The gross receipts can be affected by timing of obtaining new tenants and the negotiated lease rental amounts. Gross receipts are income before expense or debt service.

Anticipated CRE Distributions for FY22 is \$1.72 million. Actual distributions for FY22 could range higher with a successful refinance of some of the properties. \$600,000 of the anticipated funds will be contributed to the CFF in FY22.

Consistency with the Resource Management Strategy: The proposal is consistent with the “Resource Management Strategy for Trust Land” (RMS), which was adopted March 2016 in consultation with the Trust and provides for maximization of return on investment and provides for long term income generation at prudent levels of risk.

Trust Land Office Recommendation: The TLO recommends that it is in the Trust’s best interest to approve the incremental building expenditures for FY22 to be funded by tenant rents and other income collected from the properties.

Applicable Authority: AS 37.14.009(a), AS 38.05.801, 20 AAC 40.710-720 and 11 AAC 99.

Trust Authority Approval: The motions presented in this briefing document fulfill the approval requirements that are applicable to the transaction.

FY22 Real Estate Management Plan and Non-Investment/Program-Related Real Estate Facility Funding Budget (Trust Funded) (Proposed Motion Two)

General Background: There are times that the Central Facility Fund (CFF) will be used so as not to create an uncomfortable level of cash flow compression or that there are insufficient rents to pay for facility obligations. This is typically realized in facilities that are used for program related purposes or operations use where no rent is collected. The Trust Land Office (TLO) uses comprehensive reporting and budgeting for each property with industry recognized capital expense forecasting. Although this Motion 2 approves use of the CFF, the TLO will attempt to use the rent receipts first when possible.

Consistency with the Resource Management Strategy: The proposal is consistent with the “Resource Management Strategy for Trust Land” (RMS), which was adopted March 2016 in

consultation with the Trust and provides for assuring that the real estate needs of mental health programs sponsored by the Alaska Mental Health Trust Authority are met as appropriate. In addition, 11 AAC 99.020(c)(3) cites protection and enhancement of the long-term productivity of Trust land.

Trust Land Office Recommendation: The TLO recommends that it is in the Trust's best interest to approve the incremental building expenditures for FY22.

Applicable Authority: AS 37.14.009(a), AS 38.05.801, 20 AAC 40.710-720 and 11 AAC 99.

Trust Authority Approval: The motions presented in this briefing document fulfill the approval requirements that are applicable to the transaction.

Exhibit(s):

Exhibit 1 - Property Budget Summary

Motion Three Background:

The Trust's Asset Management Policy Statement (AMPS) requires us to secure the services of third party real estate advisor that "provides independent advice and recommendations regarding Trust's non-liquid direct real estate investments and provides trustees with additional expertise when considering investment decisions". 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) in October 2019 with three (3) 1-year renewals that cross fiscal years. The first-year contract was for \$380,000. The second-year contract, which will expire October 31, 2021, was approved by Trustees January, 2021, for \$295,000. Under the second-year contract, Harvest's responsibilities are to focus on performance review, hold/sell analysis, risk assessment, and strategic direction, advice and review on budgets and planning, asset review, and presentation to the Trustees of its recommendations for the commercial real estate business plan. The Year two scope/cost is expected to continue into the third contract year. The purpose of this motion is to authorize expenditures from the Central Facility Fund (CFF) for November 2021 through June 2022 and fully fund the contract through FY22.

The funding source for this contract is the CFF. The source of funds for the CFF is contributions from the properties accumulated over time, and balance of the CFF can be maintained to ensure there are sufficient funds to cover this contract.

FY22 Real Estate Budget Summary

Real Estate Management Plan - Rent Funded

Name	City, State	Gross Receipts & Cash Reserve	FY21 Approved Gross Receipts	Operating Expense	Capital Improvements ¹	Debt Service ²	FY22 Total	FY21 Approved
Parks- 1111 Israel Road	Tumwater, WA	\$ 1,816,837	\$ 1,597,620	\$ 523,421	\$ 31,800	\$ 908,819	\$ 1,464,040	\$ 1,539,880
IRS- 1973 North Rulon White Blvd.	Ogden, UT	\$ 2,033,627	\$ 2,005,748	\$ 876,231	\$ 86,750	\$ 619,771	\$ 1,582,752	\$ 1,519,309
Commercial- 2618 Commercial Drive	Anchorage, AK	\$ 386,628	\$ 238,928	\$ 13,412	\$ 150,000	\$ 98,975	\$ 262,387	\$ 262,087
Cordova- 2600 Cordova Street	Anchorage, AK	\$ 662,318	\$ 574,069	\$ 305,154	\$ 214,378	\$ -	\$ 519,532	\$ 447,808
Promontory Point- 2420 & 2500 Ridgepoint Drive	Austin, TX	\$ 1,979,228	\$ 1,967,556	\$ 1,006,904	\$ 5,000	\$ 635,942	\$ 1,647,846	\$ 1,366,280
North Park- 17319 San Pedro Avenue**	San Antonio, TX	\$ 1,854,701	\$ 1,570,305	\$ 927,393	\$ 314,250	\$ 613,058	\$ 1,854,701	\$ 1,931,824
Amber Oaks- 9601 Amberglen Blvd.**	Austin, TX	\$ 4,511,279	\$ 3,178,191	\$ 1,971,904	\$ 1,599,205	\$ 940,171	\$ 4,511,279	\$ 2,902,826
Totals		\$ 13,244,618	\$ 11,132,417	\$ 5,624,419	\$ 2,401,383	\$ 3,816,736	\$ 11,842,538	\$ 9,970,014

NET REVENUE
\$ 352,797
\$ 450,875
\$ 124,241
\$ 142,786
\$ 331,382
\$ -
0*
\$ 1,402,080

Non-Investment/Program Related Real Estate - Rent Funded

Name	City, State	Gross Receipts	FY21 Approved Gross Receipts	Operating Expense	Capital Improvements ¹	Debt Service ²	Total	FY21 Approved
TAB- 3745 Community Park Loop Road**	Anchorage, AK	\$ 342,533	\$ 319,258	\$ 342,533	\$ -	\$ -	\$ 342,533	\$ 372,290
Detox- 650 Yonker Court	Fairbanks, AK	\$ 102,851	\$ 102,851	\$ 8,412	\$ -	\$ -	\$ 8,412	\$ 8,412
Assets- 2330 Nichols Street	Anchorage, AK	\$ 62,699	\$ 62,699	\$ 9,500	\$ -	\$ -	\$ 9,500	\$ 9,500
Fahrenkamp Center- 1423 Peger Road	Fairbanks, AK	\$ 144,350	\$ 139,188	\$ 18,522	\$ -	\$ -	\$ 18,522	\$ 15,945
Denardo- 1300 Moore Street	Fairbanks, AK	\$ 88,065	\$ 43,310	\$ 34,530	\$ -	\$ -	\$ 34,530	\$ 29,676
Totals		\$ 740,498	\$ 667,306	\$ 413,497	\$ -	\$ -	\$ 413,497	\$ 435,823
Motion 1 Subtotal							\$ 12,256,035	\$ 10,405,837

NET REVENUE
0*
\$ 94,439
\$ 53,199
\$ 125,828
\$ 53,535
\$ 327,001

Non-Investment/REMP Real Estate - from Central Facility Fund

Name	City, State	Gross Receipts	FY21 Approved Gross Receipts	Operating Expense ³	Capital Improvements ¹	Debt Service ²	Total	Shortfall
TAB- 3745 Community Park Loop Road	Anchorage, AK	\$ 320,033	\$ 319,258	\$ 342,533	\$ -	\$ -	\$ 342,533	\$ 22,500
Amber Oaks- 9601 Amberglen Blvd.**	Austin, TX	\$ 4,264,337	\$ 3,178,191	\$ 1,971,904	\$ 1,599,205	\$ 940,171	\$ 4,511,279	\$ 246,942
Totals				\$ 2,314,437	\$ 1,599,205	\$ 940,171	\$ 4,853,813	\$ 269,442
Motions 2 Subtotal							\$ 269,442	

\$ 1,729,081

1 - Capital Improvements

Parks	Parking lot Maintenance/Powerwashing/stripping/Parking lot lighting/Exterior &Interior painting/HVAC Repairs
IRS	HVAC RTU replacement/HVAC Preventative Maintenance/South Parking lot seal coat/Loading dock seal/ Paint exterior building/ UPS replacement
Cordova	RTU replacement/VAV box project part 2/ bathroom remodel
North Park	Landscaping/ Commissions and Tenant Improvments for new tenants
Amber Oaks	HVAC Replacement/Landscaping and Tenant improvements and Commissions
Commercial	Lease renewal improvements
TAB	

2 - Debt Service includes Principal and Interest

This is not inclusive of potential refinance figures

3- Operating

Due to cash compression there will be shortfalls in cashflows we will need to use up to \$22,500 for building operations.

For Amber Oaks \$1.5MM of cash reserves is added to Gross Receipts

For North Park \$431.5K of cash reserves is added to Gross Receipts

0*-Amber Oaks Deficit is proposd to be funded by CFF \$246,942

0*- TAB Deficit is proposd to be funded by CFF \$22,500